



**Mandeni Municipality
Annual Financial Statements
for the year ended 30 June 2020**

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Legal form of entity

Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)

Nature of business and principal activities

The provision of services (electricity and refuse) to communities in a sustainable manner to promote social and economic development, and to promote a safe and a healthy environment.

MEMBERS OF EXECUTIVE COUNCIL

Mayor

Cllr TP Mdlalose

Deputy Mayor

Cllr PM Sishi

Speaker

Cllr BL Magwaza

Members of the Executive Committee

Cllr RL Mdletshe

Cllr MS Mdunge

Cllr NF Ntuli

Cllr M Shelembe

Cllr ST Magwaza

Other councillors

Cllr MT Cele

Cllr N Dlamini

Cllr AM Gwala

Cllr EK Dube

Cllr SB Zulu

Cllr SJ Mathonsi

Cllr SZ Mdletshe

Cllr SR Mdletshe

Cllr MV Mhlongo

Cllr MC Mkhaliphi

Cllr MM Mngadi

Cllr N Msimango

Cllr CL Mthembu

Cllr BW Mthethwa

Cllr K Naidoo

Cllr M Ngubane

Cllr S Nkwanyana

Cllr N Nomvete

Cllr NT Shandu

Cllr TP Shandu

Cllr NR Sibiya

Cllr DM Sithole

Cllr NR Tembe

Cllr AA Zungu

Cllr GN Zungu

Cllr TP Zungu

Cllr BA Khumalo

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General Information

Senior management	S G Khuzwayo - Municipal Manager NN Mngomezulu - Chief Financial Officer VP Zulu - Director: Corporate Services KP Gumede - Director: Technical Services L Kutwana-Gomana - Director: Public Safety and Community Services WD Mbongwa - Director: Economic Development, Planning and Human Settlement
Auditors	Auditor-General South Africa
Bankers	First National Bank Nedbank Standard Bank
Registered office	Mandeni Municipal Office 2 Kingfisher Road Mandeni 4490
Business address	2 Kingfisher Road Mandeni 4490
Postal address	P O Box 144 Mandeni 4490
Telephone number	032 - 456 8200
Fax number	032 - 456 2504
Email address	info@mandeni.gov.za
Grading of local authority	3
Jurisdiction	Mandeni Boundary (as determined by the Demarcation Board)
Legislation governing the municipality's operations	Local Government: Municipal Finance Management Act (Act 56 of 2003) Local Government: Municipal Systems Act (Act 32 of 2000) Local Government: Municipal Structures Act (Act 117 of 1998) Constitution of the Republic of south Africa (Act 108 of 1998) Municipal Property Rates Act (act of 6 2004) Division of Revenue Act (Act 1 of 2007)

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COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
INEP	Integrated National Electrification Programme
LGSETA	Local Government Sector Education and Training Authority
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

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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.

I am responsible for the preparation of these annual financial statements, which are set out on page 6, in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) and which I have signed on behalf of the municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 30 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Office Bearers Act and the Minister of Corporative Governance and Traditional Affairs' determination in accordance with this Act.

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 places 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 2021 and, in light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The external auditor, being the Auditor General of South Africa, is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors.

The annual financial statements set out on pages 6 to 77 which have been prepared on the going concern basis, were approved by the accounting officer on 30 October 2020 and were signed by:

SG Khuzwayo
Accounting Officer

Mandeni
30 October 2020

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2020.

1. Going concern

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

2. Subsequent events

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

3. Accounting policies

The annual financial statements are prepared in accordance with the South African Statements of Generally Accepted Accounting Practice (GAAP), including any interpretations of such Statements issued by the Accounting Practices Board, and in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

4. Non-current assets

There were no changes in the policy relating to the use of non-current assets.

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Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019
Assets			
Current Assets			
Inventories	3	979,669	508,412
Receivables from exchange transactions	4	14,036,279	16,367,204
Receivables from non-exchange transactions	5	36,771,575	32,903,038
VAT receivable	6	2,483,602	4,210,863
Call and investments deposits	7	108,233,646	54,805,678
Cash and cash equivalents	8	2,912,431	5,801,020
		165,417,202	114,596,215
Non-Current Assets			
Investment property	9	70,116,000	57,876,705
Property, plant and equipment	10	436,097,707	443,461,700
Intangible assets	11	779,811	835,853
		506,993,518	502,174,258
Total Assets		672,410,720	616,770,473
Liabilities			
Current Liabilities			
Finance lease obligation	12	870,146	813,391
Operating lease liability	13	6,217	37,987
Payables from exchange transactions	14	18,209,193	17,543,070
Consumer deposits	15	380,067	442,043
Unspent conditional grants and receipts	16	26,216,907	9,874,503
		45,682,530	28,710,994
Non-Current Liabilities			
Finance lease obligation	12	893,490	1,890,284
Employee benefit obligation	17	19,465,119	17,764,000
		20,358,609	19,654,284
Total Liabilities		66,041,139	48,365,278
Net Assets		606,369,581	568,405,195
Reserves			
Housing Development fund		1,782,255	1,696,453
Accumulated surplus	18	604,587,326	566,708,742
Total Net Assets		606,369,581	568,405,195

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Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019
Revenue			
Revenue from exchange transactions			
Service charges	20	38,443,301	33,278,866
Rental of facilities and equipment	21	459,707	254,142
Licences and permits	22	762,217	1,133,316
Other income	23	1,070,098	737,089
Interest received - investment	24	6,818,965	4,892,612
Total revenue from exchange transactions		47,554,288	40,296,025
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	46,605,701	40,079,522
Property rates - penalties imposed	25	11,829,907	13,850,685
Transfer revenue			
Government grants & subsidies	26	191,364,625	194,857,059
Fines, penalties and forfeits	27	131,134	402,920
Donated assets income	28	2,159,258	288,108
Total revenue from non-exchange transactions		252,090,625	249,478,294
Total revenue	19	299,644,913	289,774,319
Expenditure			
Employee related costs	29	(99,424,214)	(84,931,191)
Remuneration of councillors	30	(13,248,529)	(13,022,835)
Depreciation and amortisation	31	(28,966,987)	(27,103,257)
Bulk purchases	32	(26,098,068)	(22,907,060)
Impairment loss	33	(1,330,530)	(609,185)
Debt impairment	34	(35,686,399)	(41,620,980)
Lease rentals	35	(2,289,115)	(1,865,318)
Finance costs	36	(2,806,129)	(2,389,008)
Contracted services	37	(35,355,246)	(44,730,855)
Transfers and subsidies	38	(1,498,873)	(1,340,017)
General expenses	39	(27,886,307)	(26,642,679)
Total expenditure		(274,590,397)	(267,162,385)
Operating surplus		25,054,516	22,611,934
Loss on disposal of assets and liabilities		(740,108)	(1,036,323)
Fair value adjustments	40	12,239,295	-
Actuarial gains/losses	17	1,324,881	2,289,520
		12,824,068	1,253,197
Surplus for the year		37,878,584	23,865,131

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Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

Figures in Rand	Other NDR	Accumulated surplus	Total net assets
Balance at 01 July 2018	2,032,332	542,843,611	544,875,943
Changes in net assets			
Surplus for the year	-	23,865,131	23,865,131
Transfer of capital surplus to trust capital	(335,879)	-	(335,879)
Total changes	(335,879)	23,865,131	23,529,252
Balance at 01 July 2019	1,696,453	566,708,742	568,405,195
Changes in net assets			
Surplus for the year	-	37,878,584	37,878,584
Interest on the reserves	85,802	-	85,802
Total changes	85,802	37,878,584	37,964,386
Balance at 30 June 2020	1,782,255	604,587,326	606,369,581

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Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Taxation		25,973,485	17,145,112
Sale of goods and services		36,104,569	51,513,422
Grants		207,707,029	194,252,443
Interest- External investment		6,818,965	4,892,612
		<u>276,604,048</u>	<u>267,803,589</u>
Payments			
Employee costs		(108,263,470)	(97,428,311)
Suppliers		(94,569,499)	(100,309,129)
Other payments		(919,129)	(611,008)
		<u>(203,752,098)</u>	<u>(198,348,448)</u>
Net cash flows from operating activities	42	<u>72,851,950</u>	<u>69,455,141</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(21,363,568)	(43,771,338)
Proceeds from sale of property, plant and equipment	10	47,234	526,481
Purchase of other intangible assets	11	(142,000)	(86,956)
Net cash flows used in investing activities		<u>(21,458,334)</u>	<u>(43,331,813)</u>
Cash flows from financing activities			
Finance lease payments		(940,039)	(1,057,081)
Payments relating to Housing Development Fund		-	(451,326)
Interest on reserves capitalised		85,802	115,447
Net cash flows used in financing activities		<u>(854,237)</u>	<u>(1,392,960)</u>
Net increase in cash and cash equivalents		50,539,379	24,730,368
Cash and cash equivalents at the beginning of the year		60,606,698	35,876,330
Cash and cash equivalents at the end of the year	8	<u>111,146,077</u>	<u>60,606,698</u>

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Appropriation Statement

Figures in Rand

	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
2020											
Financial Performance											
Property rates	49,508,740	-	49,508,740	-		49,508,740	46,605,701		(2,903,039)	94 %	94 %
Service charges	41,388,603	-	41,388,603	-		41,388,603	38,443,301		(2,945,302)	93 %	93 %
Investment revenue	3,540,000	1,500,000	5,040,000	-		5,040,000	6,818,965		1,778,965	135 %	193 %
Transfers recognised - operational	188,769,260	(11,505,000)	177,264,260	-		177,264,260	175,085,522		(2,178,738)	99 %	93 %
Other own revenue	18,573,566	600,227	19,173,793	-		19,173,793	16,412,321		(2,761,472)	86 %	88 %
Total revenue (excluding capital transfers and contributions)	301,780,169	(9,404,773)	292,375,396	-		292,375,396	283,365,810		(9,009,586)	97 %	94 %
Employee costs	(96,673,415)	(10,284,890)	(106,958,305)	-	-	(106,958,305)	(101,311,214)	-	5,647,091	95 %	105 %
Remuneration of councillors	(13,762,161)	-	(13,762,161)	-	-	(13,762,161)	(13,248,529)	-	513,632	96 %	96 %
Debt impairment	(19,891,094)	(24,817,136)	(44,708,230)			(44,708,230)	(35,686,399)	-	9,021,831	80 %	179 %
Depreciation and asset impairment	(30,803,844)	-	(30,803,844)			(30,803,844)	(30,297,517)	-	506,327	98 %	98 %
Finance charges	(306,577)	(232,000)	(538,577)	-	-	(538,577)	(258,672)	-	279,905	48 %	84 %
Materials and bulk purchases	(25,856,404)	-	(25,856,404)	-	-	(25,856,404)	(26,098,068)	-	(241,664)	101 %	101 %
Transfers and grants	(11,000,674)	9,500,000	(1,500,674)	-	-	(1,500,674)	(1,498,873)	-	1,801	100 %	14 %
Other expenditure	(99,649,210)	1,497,824	(98,151,386)	-	-	(98,151,386)	(53,367,057)	-	44,784,329	54 %	54 %
Total expenditure	(297,943,379)	(24,336,202)	(322,279,581)	-	-	(322,279,581)	(261,766,329)	-	60,513,252	81 %	88 %
Surplus/(Deficit)	3,836,790	(33,740,975)	(29,904,185)	-		(29,904,185)	21,599,481		51,503,666	(72)%	563 %

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Appropriation Statement

Figures in Rand

	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
Transfers recognised - capital	35,084,740	(2,153,006)	32,931,734	-		32,931,734	16,279,103		(16,652,631)	49 %	46 %
Surplus (Deficit) after capital transfers and contributions	38,921,530	(35,893,981)	3,027,549	-		3,027,549	37,878,584		34,851,035	1,251 %	97 %
Surplus/(Deficit) for the year	38,921,530	(35,893,981)	3,027,549	-		3,027,549	37,878,584		34,851,035	1,251 %	97 %
Capital expenditure and funds sources											
Total capital expenditure	50,641,501	(2,539,191)	48,102,310	-		48,102,310	21,505,568		(26,596,742)	45 %	42 %
Sources of capital funds											
Transfers recognised - capital	35,098,500	(2,217,381)	32,881,119	-		32,881,119	16,279,103		(16,602,016)	50 %	46 %
Internally generated funds	15,543,001	(321,810)	15,221,191	-		15,221,191	5,226,465		(9,994,726)	34 %	34 %
Total sources of capital funds	50,641,501	(2,539,191)	48,102,310	-		48,102,310	21,505,568		(26,596,742)	45 %	42 %

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Appropriation Statement

Figures in Rand

	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
Cash flows											
Net cash from (used) operating	46,421,926	(2,795,578)	43,626,348	-		43,626,348	72,851,950		29,225,602	167 %	157 %
Net cash from (used) investing	(46,706,650)	7,979,574	(38,727,076)	-		(38,727,076)	(21,458,334)		17,268,742	55 %	46 %
Net cash from (used) financing	(1,311,135)	73,226	(1,237,909)	-		(1,237,909)	(854,237)		383,672	69 %	65 %
Net increase/ (decrease) in cash and cash equivalents	(1,595,859)	5,257,222	3,661,363	-		3,661,363	50,539,379		46,878,016	1,380 %	(3,167)%
Cash and cash equivalents at the beginning of the year	20,703,899	39,902,799	60,606,698	-		60,606,698	60,606,698		-	100 %	293 %
Cash and cash equivalents at year end	19,108,040	45,160,021	64,268,061	-		64,268,061	111,146,077		(46,878,016)	173 %	582 %

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board in accordance with section 122(3) of 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 unless specified otherwise. They are presented in South African Rand. All figures have been rounded to the nearest Rand.

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

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

These accounting policies are consistent with the previous period.

1.1 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:

Trade receivables

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

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

Impairment testing

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

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

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 14 - Payables from exchange transactions.

Useful lives of property, plant and equipment and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and intangible assets. This estimate is based on the pattern in which an asset's future economic benefits or service potential are expected to be consumed by the municipality.

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Accounting Policies

1.1 Significant judgements and sources of estimation uncertainty (continued)

Post retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows under GRAP 13 while the government bond rate was used to discount future cash flows under GRAP 25.

Allowance for debt impairment

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

1.2 Going concern - assumption

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

1.3 Investment property

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

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

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

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

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

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

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

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Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.3 Investment property (continued)

Subsequent measurement - Fair value

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

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

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

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

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

1.4 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. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost.

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.

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. The cost also includes necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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, its 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.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are connected for as property, plant and equipment.

Subsequent measurement - cost model (land and buildings)

Subsequent to initial recognition, land and buildings are carried at a cost amount, being its fair value at the date of revaluation less any subsequent accumulated depreciation and any impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

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Accounting Policies

1.4 Property, plant and equipment (continued)

Any increase in asset's carrying amount as a result of revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Subsequent measurement - cost model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any impairment losses.

Where the municipality replaces part of an asset, it derecognises the part of an asset being replaced and capitalises the new component. Subsequent expenditure incurred on a asset is capitalised when it increases the capacity or the future economic benefits associated with the asset.

Depreciation

Depreciation is calculated on a depreciable amount, using the straight line basis over the estimated useful life of items of property, plant and equipment unless depreciation of certain assets is being determined using a method other than the estimated useful life.

Components of assets that are significant in relation to the whole asset and have different useful lives are depreciated separately.

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.

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

The annual depreciation rates are based on the following estimated average useful lives of items of property, plant and equipment and have been assessed as follows:

Item	Depreciation method	Average useful life in years
Buildings	Straight line	30 years
Infrastructure	Straight line	30 years
Community	Straight line	30 years
Other property, plant and equipment	Straight line	5 to 10 years

The residual value and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimate, the change is accounted for as a change in accounting estimate. In determining the depreciation change for the current year, the residual value for all assets have been taken into account.

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

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Accounting Policies

1.5 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

Intangible assets are initially recognised at cost.

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Useful life
Computer software	3 years

Intangible assets are derecognised:

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

Mandeni Municipality

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Accounting Policies

1.5 Intangible assets (continued)

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the statement of financial performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or receivable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and impairment loss is charged to the statement of financial performance.

Derecognition

Intangible assets are derecognised when the asset is disposed off or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount and is recognised in the statement of financial performance.

1.6 Financial instruments

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

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

Class	Category
Cash and cash equivalents	Financial asset measured at amortised cost
Call investment deposits	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non- exchange transactions	Financial asset measured at amortised cost
Other receivables	Financial asset measured at fair value

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Other payables	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost

Accounting Policies

1.6 Financial instruments (continued)

Initial and subsequent measurement

Financial assets

Held-to-maturity Investments and Loans and Receivables are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial Assets at Available-for-Sale are initially and subsequently, at the end of each financial year, measured at fair value with the profit or loss being recognised in the Statement of Financial Performance.

Financial assets are recognised on the date they originated for loans and receivables and deposits and for other financial assets, initially on the trade date at which the municipality becomes a party to the contractual provision of the instrument.

Financial liabilities

Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

Financial liabilities are recognised on the trade date at which the municipality becomes a party to the contractual provisions of the instrument.

Impairment of financial assets

Financial assets are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment of financial assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

Initially accounts receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Consumer debtors are stated at cost less a provision for bad debts. The provision is made in accordance with IAS 39.64 whereby the recoverability of Consumer Debtors is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the instruments at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition of financial assets

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of financial assets due to non recoverability.

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Accounting Policies

1.6 Financial instruments (continued)

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

Derecognition of financial liabilities

The municipality derecognises financial liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

1.7 Leases

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

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

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing rate.

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

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. Property, plant equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured at the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance costs and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

The discount rate used in calculating the present value of the minimum lease payments is the municipality's incremental borrowing.

Operating leases are those leases that do not fall within the scope within the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

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.

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Accounting Policies

1.8 Inventories

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

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

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

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

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

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

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

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

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

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

1.9 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

Mandeni Municipality

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Accounting Policies

1.9 Impairment of cash-generating assets (continued)

Identification

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

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

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

Value in use

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

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

Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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.

Accounting Policies

1.9 Impairment of cash-generating assets (continued)

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.

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 surplus or deficit.

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 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.

Accounting Policies

1.10 Employee benefits

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

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 entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

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

The municipality recognises 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 a 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.

Accounting Policies

1.10 Employee benefits (continued)

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

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

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

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

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

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which a 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 recognises 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

1.10 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

Defined benefit plans are post-employment benefit plans other than defined contribution plans. The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) on retirement, is entitled to remain a continued member of the medical aid fund in which case the municipality is liable for a certain portion of the medical aid membership fee.

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 recognises actuarial gains and losses in surplus or deficit in the reporting period in which they occur.

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 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 municipality accounts 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 measure the resulting asset at the lower of:

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

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

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

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.10 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.10 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

Long-term service awards

The municipality has an obligation to provide long term service awards to all of its employees who have been in service of the municipality for a certain period of time. According to the rules of the long-term service allowance scheme, which the municipality has instituted and operates, an employee (who is on the current conditions of service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 5, 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.

The municipality's liability is based on an actuarial valuation. The Projected Unit Credit Method is used to value the liability. Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

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

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

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

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

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.10 Employee benefits (continued)

Termination benefits

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

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

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

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

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

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

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

1.11 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating expenditure.

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

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.11 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when the municipality:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 44 unless the possibility of an outflow or resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefit is probable.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.11 Provisions and contingencies (continued)

Levies

A levy is an outflow of resources embodying economic benefits that is imposed by governments on entities in accordance with legislation (i.e. laws and/or regulations), other than:

- those outflows of resources that are within the scope of other Standards, and
- fines or other penalties that are imposed for breaches of the legislation.

Government refers to government, government agencies and similar bodies whether local, national or international.

The obligating event that gives rise to a liability to pay a levy is the activity that triggers the payment of the levy, as identified by the legislation.

The municipality does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the municipality being economically compelled to continue to operate in that future period. The preparation of financial statements under the going concern assumption does not imply that the municipality has a present obligation to pay a levy that will be triggered by operating in a future period.

The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time (i.e. if the activity that triggers the payment of the levy, as identified by the legislation, occurs over a period of time).

If an obligation to pay a levy is triggered when a minimum threshold is reached, the corresponding liability is recognised when that minimum threshold is reached.

The municipality recognises an asset if it has prepaid a levy but does not yet have a present obligation to pay that levy.

1.12 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.

Service charges relating to electricity are based on consumption. Meters are read on a quarterly 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.

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.

Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale.

Revenue from the sale of tender documents is recognised at the point of sale.

Accounting Policies

1.12 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 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 refuse 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 based on the recorded number of refuse containers per property.

Revenue from the rental of facilities and equipment is 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 gazetted tariff. This includes the issuing of licenses and permits.

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

Interest

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

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

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

1.13 Revenue from non-exchange transactions

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

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

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

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

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

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

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

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.

Taxes

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

Resources arising from property rates satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured.

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

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

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

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.13 Revenue from non-exchange transactions (continued)

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 settlement discounts or reductions in the amount payable are offered, the municipality considers past history in assessing the likelihood of these discounts or reductions being taken up by the debtors.

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

Gifts and donations, including goods in-kind

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

Services in-kind

Services in-kind are not recognised.

Concessionary loans received

A concessionary loan is a loan granted to or received by an property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists the cash flow statement recognises revenue as and when it satisfies the conditions of the loan agreement.

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 on a time proportionate basis.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.14 Value-added tax

The municipality accounts for value-added tax (VAT) on the payment basis.

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payment basis, in accordance with section 15(2) of the VAT Act (Act no. 89 of 1991).

1.15 Comparative figures

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

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as it is practical, 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 it is practical, and the prior year comparatives are restated accordingly.

1.16 Unauthorised expenditure

Unauthorised expenditure means any expenditure incurred by the municipality otherwise than in accordance with section 15 or 11(3) of the Municipal Finance Management Act (Act No.56 of 2003) and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- 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.
- expenditure from a vote unrelated to the department or functional area covered by the vote;
- expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in paragraph (b),(c) or (d) of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or a grant by the municipality in accordance with the Municipal Finance Management Act.

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.

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state. An expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No. 56 of 2003). Unauthorised expenditure is accounted for as an expense in the statement of financial performance and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

1.17 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.

1.18 Irregular expenditure

Irregular expenditure as defined in section 1 of the PFMA is expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including-

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.19 Accumulated surplus

Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment, amounts are transferred from the accumulated surplus/(deficit) to the CRR in terms of a Council resolution (Number C30 dated 17.10.2012).

These transfers from the net surplus may only be made if they are backed by cash. The amount transferred to CRR is based on the municipality's need to finance future capital progress included in the integrated development plan. The following provisions are set for the creation and utilisation of the CRR:

- the cash which backs up the CRR is invested until it is utilised. The cash may only be invested in accordance with the investment policy of the municipality.
- interest earned on the CRR investment is recorded as part of the total interest earned in the statement of financial performance
- the CRR may only be utilised for the purpose of purchasing items of property, plant and equipment for the municipality and may not be used for maintenance of these items.
- whenever an asset is purchased out of CRR, an amount equal to the cost price of the asset purchased is transferred from the CRR into a future depreciation reserve called the Capitalisation Reserve. This reserve is equal to the remaining depreciable value (book value) of assets purchased out of the CRR. The Capitalisation Reserve is used to offset depreciation charged on assets purchased out of the CRR to avoid double taxation of the consumers.
- if a gain is made on the sale of assets previously purchased out of the CRR, the gain on these assets sold is reflected in the statement of financial performance.

Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund.

Provisions are set out for the creation and utilisation of the Housing Development Fund. The Housing Development Fund is cash- backed, and invested in accordance with the investment policy of the municipality.

In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

Donations and public contributions reserve

When items of property, plant and equipment are financed from public contributions and donations, a transfer is made from the accumulated surplus/deficit to the Donations and Public Contributions Reserve equal to the donations and public contributions recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Donations and Public Contributions Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity and facilitate budgetary control by ensuring that sufficient funds are set aside to offset the future depreciation charges that will be incurred over the estimated useful life of the item of property, plant and equipment financed from donations and public contributions.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Donations and Public Contributions Reserve relating to such item is transferred to the accumulated surplus/deficit.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.19 Accumulated surplus (continued)

Government grant reserve

When items of property, plant and equipment are financed from government grants, a transfer is made from the accumulated surplus/deficit to the Government Grants Reserve equal to the Government Grant recorded as revenue in the statement of financial performance in accordance with a directive issued by National Treasury. When such items of property, plant and equipment are depreciated, a transfer is made from the Government Grant Reserve to the accumulated surplus/deficit. The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus/deficit.

The purpose of this policy is to promote community equity by ensuring that the future depreciation expenses that will be incurred over the useful lives of government grant funded items of property, plant and equipment are offset by transfers from this reserve to the accumulated surplus.

When an item of property, plant and equipment financed from government grants is disposed, the balance in the Government Grant Reserve relating to such item is transferred to the accumulated surplus/deficit.

1.20 Budget information

Municipality is 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.

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

The approved budget covers the fiscal period from 2019/07/01 to 2020/06/30.

The annual financial statements and the budget are on the same basis of accounting.

1.21 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.

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.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.21 Related parties (continued)

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.

1.22 Events after the reporting date

The municipality has carefully considered whether events occurring between the Statement of Financial Position date and the date of approval should be reflected in the annual financial statements. Events after the reporting period (or 'post Statement of Financial Position events') are either adjusting events or non-adjusting events.

Adjusting events provide further evidence of conditions that existed at the statement of financial position date and the carrying amounts of assets and liabilities at the statement of financial position date are adjusted for such events. Non-adjusting events relate to conditions that arose after the statement of financial position date and should be disclosed.

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

1.23 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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 Share capital / contributed capital

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

1.25 Borrowing costs

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

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

1.26 Transfers and subsidies

Transfers and subsidies include all unrequited payments made by the municipality. A payment is unrequited provided that the municipality does not receive anything of similar value directly in return for the transfer to the other party.

Transfers and subsidies are recognised in the Statement of Financial Performance as expenses in the period in which the events giving rise to the transfer occurred.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 20: Related parties	01 April 2019	The impact of the Standard is not material.

2.2 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 2020 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 104 (amended): Financial Instruments	No effective date	Not expected to impact results but may result in additional disclosure
Guideline: Guideline on Accounting for Landfill Sites	No effective date	Not expected to impact results but may result in additional disclosure
GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact

3. Inventories

Consumable stores	770,383	401,754
Maintenance materials	209,286	106,658
	979,669	508,412
Consumable stores		
Opening balance	401,754	406,350
Additions	1,078,367	1,701,414
Issued/(expensed)	(709,738)	(1,706,010)
	770,383	401,754
Maintenance materials		
Opening balance	106,658	109,423
Additions	290,086	177,120
Issued/(expensed)	(187,458)	(179,885)
	209,286	106,658

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
4. Receivables from exchange transactions		
Gross balances		
Electricity	7,147,967	9,210,719
Refuse	42,657,021	38,040,876
	49,804,988	47,251,595
Less: Allowance for impairment		
Electricity	(759,103)	(1,209,631)
Refuse	(35,009,606)	(29,674,760)
	(35,768,709)	(30,884,391)
Net balance		
Electricity	6,388,864	8,001,088
Refuse	7,647,415	8,366,116
	14,036,279	16,367,204
Electricity		
Current (0 -30 days)	1,678,379	4,753,375
31 - 60 days	735,122	908,492
61 - 90 days	363,571	148,957
91 - 120 days	353,847	281,091
121 - 365 days	1,038,882	149,281
> 365 days	2,978,166	2,969,523
Less: Impairment	(759,103)	(1,209,631)
	6,388,864	8,001,088
Refuse		
Current (0 -30 days)	818,876	815,146
31 - 60 days	676,409	693,438
61 - 90 days	650,494	613,044
91 - 120 days	629,469	569,901
121 - 365 days	1,208,304	583,217
> 365 days	38,673,470	34,766,129
Less: Impairment	(35,009,607)	(29,674,759)
	7,647,415	8,366,116
5. Receivables from non-exchange transactions		
Gross balances		
Rates	134,047,543	109,219,915
Interest	50,150,258	41,709,772
Other receivables from non-exchange transactions (not aged)	4,401,848	5,540,254
	188,599,649	156,469,941
Other receivables from non-exchange transactions (not aged) comprises of:		
Fines	666,022	638,950
Other receivables	3,490,256	4,655,734
Postage deposit	10,000	10,000
Rental deposits	235,570	235,570
	4,401,848	5,540,254

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
5. Receivables from non-exchange transactions (continued)		
Less: Non-exchange transactions impairment		
Rates	(108,920,893)	(91,524,408)
Interest	(41,927,626)	(29,908,245)
Other	(979,555)	(2,134,250)
	(151,828,074)	(123,566,903)
Net balances		
Rates	25,126,650	17,695,507
Interest	8,222,632	11,801,527
Other	3,422,293	3,406,004
	36,771,575	32,903,038
Rates		
Current (0 -30 days)	(24,812)	(2,491,667)
31 - 60 days	5,647,893	6,570,906
61 - 90 days	2,810,300	3,399,132
91 - 120 days	2,743,161	807,539
121 - 365 days	4,904,421	1,815,342
> 365 days	117,966,580	99,118,664
Less: Impairment	(108,920,893)	(91,625,905)
	25,126,650	17,594,011
Interest		
Current (0 -30 days)	(115,647)	1,255,906
31 - 60 days	-	1,285,917
61 - 90 days	4,796	1,194,302
91 - 120 days	1,769,411	1,194,730
121 - 365 days	3,412,094	2,332,264
> 365 days	45,079,603	34,446,653
Less: Impairment	(41,927,625)	(31,702,789)
	8,222,632	10,006,983
Other		
Receivables not aged	4,401,848	5,540,254
Less: Impairment	(979,555)	(2,134,250)
	3,422,293	3,406,004
Total		
Current (0 -30 days)	4,261,389	3,900,331
31 - 60 days	5,647,893	7,856,823
61 - 90 days	2,815,096	4,593,434
91 - 120 days	4,512,572	2,002,269
121 - 365 days	8,316,515	4,147,606
> 365 days	163,046,183	133,565,316
	188,599,648	156,065,779
Less: Impairment	(151,828,073)	(125,462,944)
	36,771,575	30,602,835

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
5. Receivables from non-exchange transactions (continued)		
Households		
Current (0 -30 days)	1,081,422	1,962,061
31 - 60 days	1,951,581	2,491,779
61 - 90 days	1,864,711	2,170,075
91 - 120 days	2,763,601	2,136,334
121 - 365 days	5,565,818	2,684,075
> 365 days	110,349,741	95,536,857
Less: Impairment	(110,104,164)	(93,607,342)
	13,472,710	13,373,839
Industrial/Commercial		
Current (0 -30 days)	1,942,500	2,227,731
31 - 60 days	2,287,130	3,147,212
61 - 90 days	1,891,847	3,114,145
91 - 120 days	2,594,114	1,695,209
121 - 365 days	4,708,395	2,108,115
> 365 days	86,187,773	70,721,065
Less: Impairment	(74,646,891)	(58,600,972)
	24,964,868	24,412,505
National/Provincial Government		
Current (0 -30 days)	(667,184)	142,967
31 - 60 days	2,820,655	3,819,762
61 - 90 days	72,550	71,215
91 - 120 days	138,172	(978,283)
121 - 365 days	289,488	87,914
> 365 days	8,160,472	5,043,047
Less: Impairment	(1,866,172)	(2,004,770)
	8,947,981	6,181,852
Provision for Impairment		
Current (0 -30 days)	(2,054,497)	(3,408,372)
31 - 60 days	(4,348,181)	(3,642,893)
61 - 90 days	(3,433,757)	(2,876,791)
91 - 120 days	(3,900,300)	(3,267,659)
121 - 365 days	(4,908,033)	(4,111,935)
> 365 days	(168,952,015)	(139,039,684)
	(187,596,783)	(156,347,334)
Reconciliation of allowance for impairment for receivables		
Opening balance	(156,347,334)	(119,011,689)
Contribution for bad debt	(31,249,449)	(37,335,645)
	(187,596,783)	(156,347,334)
Total		
Current (0 -30 days)	4,704,147	970,914
31 - 60 days	2,711,243	5,865,588
61 - 90 days	395,404	2,517,914
91 - 120 days	1,595,588	(369,793)
121 - 365 days	5,655,668	824,300
> 365 days	35,745,804	34,159,273
	50,807,854	43,968,196

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
6. VAT receivable		
VAT	2,483,602	4,210,863
7. Call and investment deposits		
Call investment deposits consist of deposits maturing within a year and conditional grants that are ringfenced to be cash backed.		
Nedbank - Mandeni branch - Call investment deposits Account number - 23581136/9998		
Cash book balance	1,827,603	1,733,464
Bank statement balance	1,827,603	1,733,464
Standard Bank -Mandeni branch - Call investment Account number -068637527002		
Cash book balance	69	69
Bank statement balance	69	69
First National Bank - Mandeni branch - Call investment deposits Account number - C061294217372		
Cash book balance	49,882,184	40,114,771
Bank statement balance	50,385,943	40,603,380
First National Bank - Mandeni branch - Call investment deposits Account number - C062028673219		
Cash book balance	1,781,404	1,695,488
Bank statement balance	1,781,404	1,695,487
First National Bank - Mandeni branch - Call investment deposits Account number - C062812286400		
Cash book balance	15,836,675	4,478
Bank statement balance	21,307,887	1,882,115
First National Bank - Mandeni branch - Call investment deposits Account number - C062252919471		
Cash book balance	607	6,584,813
Bank statement balance	287,832	7,067,191
First National Bank - Mandeni branch - Call investment deposits Account number - C062113325882		
Cash book balance	205,510	125,355
Bank statement balance	205,511	125,356
Standard Bank - Mandeni branch - Call investment deposits Account number - 068637527003		
Cash book balance	1,661,670	1,570,475
Bank statement balance	1,661,670	1,570,475

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
7. Call and investment deposits (continued)		
First National Bank - Mandeni branch - Call investment deposits Account number - C062527527462		
Cash book balance	3,580,553	633,553
Bank statement balance	7,815,909	1,502,700
First National Bank - Mandeni branch - Call investment deposits Account number - C062538203449		
Cash book balance	103,996	99,117
Bank statement balance	103,996	99,117
Standard Bank Mandeni Call investment deposits Mandeni Branch-036971847		
Cash book balance	4,320	4,246
Bank statement balance	4,320	4,246
First National Bank - Mandeni branch Call investment deposits - Account number - C062812286963		
Cash book balance	3,349,055	2,239,849
Bank statement balance	1,265,250	2,239,849
Standard Bank - Mandeni branch - Call investment deposits Account number - 068637527005		
Cash book balance	30,000,000	-
Bank statement balance	30,000,000	-
Cash book balance	108,233,646	54,805,678

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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7. Call and investment deposits (continued)

The following call investment deposits have no restrictions on the use of funds:

- Nedbank - Mandeni branch - Call investment deposits
Account number - 23581136/9998
- Standard Bank - Mandeni branch - Call investment deposits
Account number - 068637527002
- Standard Bank - Mandeni branch - Call investment deposits
Account number - 068637527003
- First National Bank - Mandeni branch - Call investment deposits
Account number - C061294217372
- First National Bank - Mandeni branch - Call investment deposits
Account number - C062113325882
- Standard Bank - Mandeni branch - Call investment deposits
Account number - 068637527003
- First National Bank - Mandeni branch - Call investment deposits
Account number - C062538203449
- Standard Bank - Mandeni branch - Call investment deposits
Account number - 039971847
- Standard Bank - Mandeni branch - Call investment deposits
Account number - 068637527005.

The following call investment deposits have the following restrictions on the use of funds:

- First National Bank - Mandeni branch - Call investment deposits
Account number - C062028673219:
This account may only be used for housing related expenditure.
- First National Bank - Mandeni branch - Call investment deposits
Account number - C062812286400:
This account may only be used for MIG expenditure.
- First National Bank - Mandeni branch - Call investment deposits
Account number - C062252919471:
This account may only be used for Neighbourhood Development Program expenditure.
- First National Bank - Mandeni branch - Call investment deposits
Account number - C062812286963
This account may only be used for housing title deeds.
- First National Bank - Mandeni branch - Call investment deposits
Account number - C062527527462
This account may only be used for electrification programmes.

Included in the amounts above are capital grants. See note 16 for additional information.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	1,220	5,148
Bank balances	2,911,211	5,795,872
	2,912,431	5,801,020

Cash on hand

Balance at end of the year	1,220	5,148
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First National Bank - Mandeni branch:

Cheque Account

Account number 52940480587

Cash book balance	2,911,211	5,795,872
Bank statement balance	2,566,814	6,249,679

9. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	70,116,000	-	70,116,000	57,876,705	-	57,876,705

Reconciliation of investment property - 2020

	Opening balance	Additions	Disposals	Impairments	Fair value adjustments	Total
Investment property	57,876,705	-	-	-	12,239,295	70,116,000

Reconciliation of investment property - 2019

	Opening balance	Additions	Disposals	Impairments	Fair value adjustments	Total
Investment property	57,921,705	-	(45,000)	-	-	57,876,705

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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9. Investment property (continued)

Details of valuation

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

Fair value of investment properties

Portion 6 of Farm Lot 5 Ca No. 8440	20,000	12,000
Lot 56 of Padianager	55,000	45,000
Lot 1203 of Mandeni - Aloe Road	45,000	60,000
Lot 571 of Mandeni - Anderson Road	230,000	160,000
Lot 504 of Mandeni - Matthews Road	1,600,000	1,200,000
Lot 327 of Mandeni - Greig Road	550,000	480,000
Lot 1466 of Mandeni - Aloe Road	280,000	140,000
Portion 4 of Farm Lot 13 Tugela No. 13862	710,000	650,000
The Farm Lot 5 Ca No. 8440	900,000	660,000
Remainder of Farm Lot 30 Inyoni No. 13890	39,000,000	32,600,000
Lot 1340 of Mandeni	40,000	40,000
Lot 1018 of Mandeni	200,000	200,000
Lot 175 of Padianagar	130,000	80,000
Lot 48 Tugela mouth	260,000	180,000
Portion 6 Lot 9901 Newark no. 2621	1,200,000	1,920,000
Various lots Padianagar	3,797,000	2,471,705
Various lots Tugela	425,000	332,000
Various lots Tugela Ext 3	1,435,000	1,331,000
Various lots Tugela Ext 7	300,000	240,000
Various lots Mandeni Ext 8	18,939,000	15,075,000
	70,116,000	57,876,705

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal.

There is no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

Investment properties transferred

The following investment properties were transferred at Rnil values by the municipality:

Various lots Tugela Ext 3	-	45,000
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Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	18,400,000	-	18,400,000	18,400,000	-	18,400,000
Buildings	26,663,639	(2,235,141)	24,428,498	24,468,125	(1,558,968)	22,909,157
Infrastructure	461,564,066	(152,476,096)	309,087,970	452,048,450	(133,510,351)	318,538,099
Community	81,559,429	(19,463,865)	62,095,564	79,135,851	(16,527,860)	62,607,991
Other property, plant and equipment	40,484,474	(18,398,799)	22,085,675	37,399,290	(16,392,837)	21,006,453
Total	628,671,608	(192,573,901)	436,097,707	611,451,716	(167,990,016)	443,461,700

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	WIP Transferred	Disposals	Depreciation	Impairment loss	Total
Land	18,400,000	-	-	-	-	-	18,400,000
Buildings	22,909,157	5,790,305	(3,571,137)	(18,004)	(681,823)	-	24,428,498
Infrastructure	318,538,099	19,466,883	(6,255,565)	-	(21,574,854)	(1,086,593)	309,087,970
Community	62,607,991	2,748,033	-	-	(3,016,523)	(243,937)	62,095,564
Other property, plant and equipment	21,006,453	5,344,307	-	(717,776)	(3,547,309)	-	22,085,675
	443,461,700	33,349,528	(9,826,702)	(735,780)	(28,820,509)	(1,330,530)	436,097,707

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	WIP transferred	Disposals	Depreciation	Impairment loss	Total
Land	18,400,000	-	-	-	-	-	18,400,000
Buildings	21,443,452	16,132,428	(14,348,110)	(32,883)	(285,730)	-	22,909,157
Infrastructure	311,703,918	77,662,971	(49,893,160)	-	(20,349,467)	(586,163)	318,538,099
Community	57,873,039	11,689,958	(4,211,552)	(5,153)	(2,715,279)	(23,022)	62,607,991
Other property, plant and equipment	18,856,254	7,026,911	-	(1,397,697)	(3,479,015)	-	21,006,453
	428,276,663	112,512,268	(68,452,822)	(1,435,733)	(26,829,491)	(609,185)	443,461,700

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
10. Property, plant and equipment (continued)		
Property, plant and equipment in the process of being constructed or developed		
Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Ward 13 Community Hall The project was put on hold due to land legal issues.	1,768,227	1,322,864
Re-alignment of Thokoza Road to P415 - Street lighting The project was put on hold until the question of land acquisition from the school, the church and other homeowners is resolved.	2,160,034	2,160,034
Nyoni Phase 4 Taxi Routes The project is currently on hold due to delays with the approval of the WULA.	3,732,084	-
Hlomendlini Taxi Route - Sidewalks Due to financial constraints municipal counter funding for premix surfacing to the sidewalks was not possible.	485,282	-
	8,145,627	3,482,898

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Included within Buildings	Total
Opening balance	30,498,645	3,080,751	3,973,688	37,553,084
Additions/capital expenditure	13,211,318	1,173,732	2,208,937	16,593,987
Transferred to completed items	(6,255,565)	-	(3,571,137)	(9,826,702)
	37,454,398	4,254,483	2,611,488	44,320,369

Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Included within Buildings	Total
Opening balance	49,848,495	1,807,798	15,346,364	67,002,657
Additions/capital expenditure	30,543,310	5,484,505	2,975,434	39,003,249
Transferred to completed items	(49,893,160)	(4,211,552)	(14,348,110)	(68,452,822)
	30,498,645	3,080,751	3,973,688	37,553,084

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

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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11. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1,765,338	(985,527)	779,811	1,881,159	(1,045,306)	835,853

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	835,853	142,000	(51,564)	(146,478)	779,811

Reconciliation of intangible assets - 2019

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	1,104,734	86,956	(82,070)	(273,767)	835,853

12. Finance lease obligation

Minimum lease payments due

- within one year	163,577	276,155
- in second to fifth year inclusive	54,089	-

Present value of minimum lease payments

217,666	276,155
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Present value of minimum lease payments due

- within one year	870,146	813,391
- in second to fifth year inclusive	893,490	1,890,284

1,763,636	2,703,675
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Non-current liabilities

893,490	1,890,284
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Current liabilities

870,146	813,391
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1,763,636	2,703,675
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The average lease term is 3 years and the average effective borrowing rate is 10.5%. Interest rates are fixed at the contract date. Some leases have fixed repayment terms. No arrangements have been entered into for contingent rent. Obligations under finance leases are secured by the lessor's title to the leased assets.

13. Operating lease liability

Current liabilities	6,217	37,987
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The minimum operating lease commitments are disclosed in note 43 - Commitments.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
14. Payables from exchange transactions		
Trade payables	1,006,979	2,118,207
Retention	1,997,864	1,766,833
Other payables	601,198	2,166,052
Unallocated deposits	1,878,955	2,037,869
Leave accrual	10,635,818	7,706,890
Bonus accrual	2,119,510	1,775,085
	18,240,324	17,570,936
Cashier's collections	(31,131)	(27,866)
	18,209,193	17,543,070

15. Consumer deposits

Electricity	380,067	442,043
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No guarantees are held in lieu of Electricity Deposits.

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Finance Management Grant	445,779	-
Library KZNPA grant	2,190,232	1,150,944
Sport and recreation grant	57,961	82,711
NDP grant	-	5,796,050
MIG	15,785,947	-
Housing Title Deed grant	3,307,892	2,228,708
GIS Pertinent	490,914	3
INEP grant	3,544,991	616,087
Municipal Disaster Relief Grant	393,191	-
	26,216,907	9,874,503

See note 26 for reconciliation of grants from and receipts.

The capital grants are invested in a ring-fenced investment until utilised. See note 7 for additional information.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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17. Employee benefit obligations

Post retirement medical benefit plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees.

The municipality operated on five accredited medical aid schemes, namely Keyhealth, LA Health, SAMWU, Bonitas and Hosmed.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2020 by ZAQ Consultants & Actuaries. The present value of the defined benefit obligation, and the related current service cost and past service cost were measured using the Projected Unit Credit Method.

Multi-employer pension funds

The municipality makes provision for post-retirement benefits to eligible councillors and employees, who belong to different pension schemes.

All councillors belong to the pension fund for municipal councillors.

Employees belong to a variety of approved pension and provident funds.

These funds are governed by the Pension Funds Act and include both defined benefit and defined contribution schemes.

All of these funds are multi-employer plans and are subject to either a tri-annual, bi-annual or annual actuarial valuation.

Sufficient information is not available to use defined benefit accounting for the pension and retirement funds, due to the following reasons:

- (i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers.
- (ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating employer.
- (iii) The same rate of contribution 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 in sub-funds for each participating employer.

The only obligation of the municipality with respect to the retirement benefit plans is to make the specified contributions. Where councillors / employees leave the plans prior to full vesting of the contributions, the contributions payable by the municipality are reduced by the amount of forfeited contributions.

The total expense recognised in the Statement of Financial Performance represents contributions payable to these plans by the municipality at rates specified in the rules of the plans. These contributions have been expensed.

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

Carrying value

Present value of the defined benefit obligation-partly or wholly funded	(19,465,119)	(17,764,000)
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Changes in the present value of the defined benefit obligation are as follows:

Opening balance	14,015,000	14,403,569
Net expense recognised in the statement of financial performance	1,811,554	(388,569)
	15,826,554	14,015,000

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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17. Employee benefit obligations (continued)

Net expense recognised in the statement of financial performance

Current service cost	1,169,000	900,000
Interest cost	1,485,000	1,461,000
Benefits paid	(255,000)	(382,530)
Actuarial (gains) losses	(587,446)	(2,367,039)
	1,811,554	(388,569)

Key assumptions used

Assumptions used at the reporting date:

Expected retirement age	63	63
Discount rates used	9.23 %	11.53 %
Medical cost trend rates	10.17 %	9.09 %
Consumer price inflation	4.57 %	8.09 %
Net effective discount rate	3.47 %	2.24 %

Percentage of in-service members withdrawing before retirement

	Female	Male
Age 20 - 24	16.0 %	24.0 %
Age 25 - 29	12.0 %	18.0 %
Age 30 - 34	10.0 %	15.0 %
Age 35 - 40	8.0 %	10.0 %
Age 40 - 44	6.0 %	6.0 %
Age 45 - 49	4.0 %	4.0 %
Age 50 - 54	1.0 %	1.0 %
Age 55 - 59	- %	- %
Age 60+	- %	- %

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from government bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. The discount rate at 30 June 2020 is 9.23% which represents the average yield from the zero coupon government bond curve over a 15 to 20 year term.

Salary Inflation Rate: This assumption is required to reflect the estimated growth in salaries of the eligible employees until retirement.

General Salary Inflation: This assumption is more stable relative to the growth in consumer Price Index (CPI) than in the absolute terms. In most industries, experience has shown, that over the long-term, salary inflation is between 1.0% and 1.5% above CPI inflation.

The implied inflation assumption is 8.09% per annum which represents the market's pricing of inflation by comparing the yields on index linked government bonds and long term government bonds with a duration of 15 to 20 years, adjusting for an inflation risk premium of 1% per annum.

It has been assumed that the next salary increase will take place on 1 July 2020.

The next contribution increase was assumed to occur with effect from 1 January 2020.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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17. Employee benefit obligations (continued)

Replacement ratio: This is the expected pension as a percentage of final salary, at retirement. This assumption is required to determine the income band at retirement of members since some contribution rate tables are income-dependent. A replacement ratio of 65% was assumed. Income bands are assumed to increase with general salary inflation and therefore an explicit salary inflation assumption is not necessary.

Long service awards and retirement gifts

The independent valuers, ZAQ Consultants & Actuaries, carry out a statutory valuation on an annual basis.

The principal actuarial assumptions used were as follows:

Discount rate per annum	9.23 %	8.89 %
General salary inflation (long term)	5.57 %	6.65 %
Net effective discount rate	3.47 %	2.10 %

Examples of mortality rates used were as follows:

Average retirement age	63	63
Mortality during employment	SA 85-90	

Members resigned from service

	Per 1,000 members	Per 1,000 members
Age 20-24	16	16
Age 30-34	92	92
Age 40-44	58	58
Age 50-54	40	40
Age 55-59	8	8

Membership summary

Number of members	241	241
Average age of members (years)	41.2	40.5
Average past service (years)	8.9	8.0
Average salary (annual)	271,275	248,92

Benefit Structure

Service years

	Award (Number of days)	Award (Number of days)
5	5	-
10	10	10
15	20	20
20	30	30
25	30	30
30	30	30
35	30	30
40	30	30
45	30	30

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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17. Employee benefit obligations (continued)

Movement in the defined benefit obligation is as follows:

Balance at beginning of the year	3,749,000	3,167,000
Current service cost	479,000	427,000
Interest cost	402,000	317,000
Expected benefit payments	(254,000)	(238,950)
Recognised actuarial (gains)/losses	(737,435)	76,950
Balance at end of year	3,638,565	3,749,000

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

Current service cost	479,000	427,000
Interest cost	402,000	317,000
Benefit payment	(254,000)	(238,950)
Actuarial (gains) / loss	(737,435)	76,950
	(110,435)	582,000

In conclusion:

Statement of Financial Position obligation for

Long service award liability	3,638,565	3,749,000
Retirement benefit liability	15,826,554	14,015,000
	19,465,119	17,764,000

Statement of Financial Performance obligation for

Long service award expense	(110,435)	582,000
Retirement benefit expense	(1,811,554)	(388,569)
	(1,921,989)	193,431

Key assumptions used

In estimating the liability for long service awards (LSA) a number of assumptions are required. GRAP 25 statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the LSA - this is determined by the actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future-service costs are recognised over time.

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used. The discount rate is 8.89% which represents the average yield from the zero coupon government bond curve over nine years which is consistent with the cash flow weighted average of the liabilities of nine years.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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18. Accumulated surplus

Ring-fenced internal funds and reserves within accumulated surplus

	Revaluation reserve	Public contributions reserve	Accumulated surplus	Total
Balance at 01 July 2018	151,731,208	50,941,129	342,203,606	544,875,943
Surplus for the year	-	-	23,865,131	23,865,131
Reserves	-	-	(335,879)	(335,879)
Balance at 01 July 2019	151,731,208	50,941,129	365,732,858	568,405,195
Surplus for the year	-	-	37,878,584	37,878,584
Reserves	-	-	85,802	85,802
Balance at 30 June 2020	151,731,208	50,941,129	403,697,244	606,369,581

19. Revenue

Property rates	46,605,701	40,079,522
Property rates - penalties imposed	11,829,907	13,850,685
Service charges	38,443,301	33,278,866
Rental of facilities and equipment	459,707	254,142
Interest received - external investments	6,818,965	4,892,612
Fines	131,134	402,920
Licences and permits	762,217	1,133,316
Government grants and subsidies	191,364,625	194,857,059
Other income	1,070,098	737,089
Donated assets income	2,159,258	288,108
	299,644,913	289,774,319

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

Service charges	38,443,301	33,278,866
Rental of facilities and equipment	459,707	254,142
Licences and permits	762,217	1,133,316
Other income	1,070,098	737,089
Interest received - external investment	6,818,965	4,892,612
	47,554,288	40,296,025

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

Taxation revenue

Property rates	46,605,701	40,079,522
Property rates - penalties imposed	11,829,907	13,850,685

Transfer revenue

Government grants and subsidies	191,364,625	194,857,059
Fines	131,134	402,920
Donated assets income	2,159,258	288,108
	252,090,625	249,478,294

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
20. Service charges		
Sale of electricity	29,908,983	24,367,491
Refuse removal	8,534,318	8,911,375
	38,443,301	33,278,866
21. Rental of facilities and equipment		
Premises		
Hall hire	120,303	126,093
Municipal properties	255,588	117,164
Stalls rental	83,816	10,885
	459,707	254,142
22. Licences and permits		
Drivers licences	8,085	21,204
Business licences	19,740	15,186
Learners licences	734,392	1,096,926
	762,217	1,133,316
23. Other income		
Building plan fees	82,015	33,838
Sundry income	688,182	403,448
Connection fees	74,016	54,229
Photocopier charges	64,786	66,578
Rates clearance certificates	12,977	23,503
Town planning fees	23,405	12,114
Pounding fees	-	696
Escort fees	124,717	142,683
	1,070,098	737,089
24. Investment revenue		
Interest revenue		
Bank and call deposits	6,818,965	4,892,612

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
25. Property rates		
Rates received		
Residential	14,575,786	10,644,531
Commercial	23,076,892	20,675,141
State	16,671,903	15,861,364
Less: Rebates	(7,718,880)	(7,101,514)
	46,605,701	40,079,522
Property rates - penalties imposed	11,829,907	13,850,685
	58,435,608	53,930,207
Valuations		
Residential	1,164,597,888	1,180,074,000
Commercial	342,426,000	343,466,000
Industrial	122,137,000	121,037,000
Industrial Estate Special	853,972,000	864,622,000
Mining	2,100,000	2,100,000
Agricultural	420,968,000	420,968,000
Institutional	11,040,000	12,210,000
Public Services Infrastructure	450,540,000	431,100,000
Public benefit Organisation	105,779,800	134,351,000
Municipal Properties	138,231,000	73,403,000
Vacant land	446,500,000	490,278,000
	4,058,291,688	4,073,609,000

Commercial includes industrial, mining and agriculture.

State includes institutional and public services infrastructure.

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

The following are the rates randage that were applied to the valuations in respect of the various categories:

Residential	0.0132	0.0126
Commercial	0.0225	0.0214
Industrial	0.0225	0.0214
Industrial Estate Special	0.0225	0.0214
Mining	0.0225	0.0214
Agriculture	0.0033	0.0031
Public Service Infrastructure	0.0033	0.0159
State	0.0210	0.0200
State Trust land	0.0167	0.0200
Vacant land	0.0210	0.0200

All residential property owners are exempt from paying rates on the first R15,000 value of property. All pensioners, the disabled and medically boarded owners are eligible for the rebates.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
26. Government grants and subsidies		
Operating grants		
Equitable share	167,483,000	146,820,986
Finance Management Grant	1,454,221	1,900,000
GIS Pertinent Grant	259,089	499,997
Sports and Recreation Grant	24,750	27,500
Library grant	2,828,712	3,580,977
Municipal Disaster Relief Grant	351,809	-
EPWP Grant	2,234,000	2,255,000
LGSETA	449,941	195,649
	175,085,522	155,280,109
Capital grants		
Municipal Infrastructure Grant	10,483,053	34,706,000
Neighbourhood Development Programme Grant	5,796,050	4,870,950
	16,279,103	39,576,950
	191,364,625	194,857,059
EPWP Grant		
Current-year receipts	2,234,000	2,255,000
Conditions met - transferred to revenue	(2,234,000)	(2,255,000)
	-	-
Poverty alleviation programme.		
Municipal Infrastructure Grant		
Balance unspent at beginning of year	-	3,515
Current-year receipts	26,269,000	34,706,000
Conditions met - transferred to revenue	(10,483,053)	(34,706,000)
Rollover application not approved	-	(3,515)
	15,785,947	-
This grant is used to construct roads infrastructure and related community projects.		
Sports and Recreation Grant		
Balance unspent at beginning of year	82,711	60,211
Current-year receipts	-	50,000
Conditions met - transferred to revenue	(24,750)	(27,500)
	57,961	82,711
Conditions still to be met - remain liabilities (see note 16).		
To pay salaries and facility refurbishment.		

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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26. Government grants and subsidies (continued)

Neighbourhood Development Programme Grant

Balance unspent at beginning of year	5,796,050	6,280,104
Current-year receipts	-	10,667,000
Conditions met - transferred to revenue	(5,796,050)	(4,870,950)
Rollover application not approved	-	(6,280,104)
	-	5,796,050

Conditions still to be met - remain liabilities (see note 16).

To finalise inner town road resurfacing.

GIS Pertinent

Balance unspent at beginning of year	3	500,000
Current-year receipts	750,000	-
Conditions met - transferred to revenue	(259,089)	(499,997)
	490,914	3

Software for improving building plans.

Finance Management Grant

Current-year receipts	1,900,000	1,900,000
Conditions met - transferred to revenue	(1,454,221)	(1,900,000)
	445,779	-

Capacity building for the Budget and Treasury Office.

LGSETA

Current-year receipts	449,941	195,649
Conditions met - transferred to revenue	(449,941)	(195,649)
	-	-

Capacity building for the municipality.

Library Grant

Balance unspent at beginning of year	1,150,944	1,070,921
Current-year receipts	3,868,000	3,661,000
Conditions met - transferred to revenue	(2,828,712)	(3,580,977)
	2,190,232	1,150,944

Conditions still to be met - remain liabilities (see note 16).

To build modular library.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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26. Government grants and subsidies (continued)

INEP

Balance unspent at beginning of year	616,087	2,564,368
Current-year receipts	9,500,000	6,786,000
Conditions met	(6,571,096)	(6,169,914)
Rollover application not approved	-	(2,564,367)
	3,544,991	616,087

Conditions still to be met - remain liabilities (see note 16).

Electrification of households. The municipality acts as an agent for Department of Energy and Eskom.

Housing Title Deed grant

Balance unspent at beginning of year	2,228,708	-
Current-year receipts	2,143,157	2,228,708
Conditions met	(1,063,973)	-
	3,307,892	2,228,708

Conditions still to be met - remain liabilities (see note 16).

This grant is for housing title deeds. The municipality acts as an agent for Kwa-Zulu Natal Department of Human Settlements.

Municipal Disaster Relief Grant

Current-year receipts	745,000	-
Conditions met - transferred to revenue	(351,809)	-
	393,191	-

Conditions still to be met - remain liabilities (see note 16).

The grant is for disaster relief relating to COVID-19.

27. Fines

Library fines	6,919	3,929
Lost books	-	3,691
Traffic fines	124,215	395,300
	131,134	402,920

28. Donated assets income

Donated assets	2,159,258	288,108
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The amount is in respect of assets donated by the KZN Department of Arts and Culture i.e. Isithebe Modular Library infrastructure and movable assets.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
29. Employee related costs		
Basic	65,627,335	60,459,034
Bonus	2,585,336	(481,538)
Medical aid - company contributions	4,587,533	3,951,708
UIF	411,517	394,633
WCA	53,399	49,679
Leave pay accrual	3,105,770	302,818
Defined contribution plans	9,534,008	8,375,257
Overtime payments	1,357,115	1,385,584
Car allowance	3,596,041	3,778,936
Housing benefits and allowances	694,614	379,114
Cellphone allowance	252,078	473,313
Pension surcharges	-	70,264
Long service awards	1,399,017	1,013,444
	93,203,763	80,152,246
Remuneration of Municipal Manager		
Annual Remuneration	1,143,406	817,292
Car Allowance	189,943	190,092
Contributions to UIF, Medical and Pension Funds	1,636	1,785
	1,334,985	1,009,169
Remuneration of Chief Finance Officer		
Annual Remuneration	732,050	480,931
Car Allowance	212,397	179,995
Contributions to UIF, Medical and Pension Funds	1,785	1,811
	946,232	662,737
Remuneration of Director Corporate Services		
Annual Remuneration	944,596	690,406
Car Allowance	-	70,500
Contributions to UIF, Medical and Pension Funds	1,636	1,837
	946,232	762,743
Remuneration of Director Community Services		
Annual Remuneration	676,993	600,410
Car Allowance	121,551	84,000
Contributions to UIF, Medical and Pension Funds	1,339	1,191
	799,883	685,601

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
29. Employee related costs (continued)		
Remuneration of Director Technical Services		
Annual Remuneration	867,070	647,560
Car Allowance	227,851	180,000
Contributions to UIF, Medical and Pension Funds	1,636	1,785
	1,096,557	829,345
Remuneration of Director EDPHS		
Annual Remuneration	915,070	647,560
Car Allowance	179,851	180,000
Contributions to UIF, Medical and Pension Funds	1,636	1,785
	1,096,557	829,345
	99,424,214	84,931,191

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
30. Remuneration of councillors		
Mayor	727,685	717,310
Deputy Mayor	729,488	690,266
Mayoral Committee Members	2,398,382	1,862,789
Speaker	584,748	608,759
Councillors	5,887,558	5,717,624
Councillors allowances	2,920,668	3,426,087
	13,248,529	13,022,835

In-kind benefits

The Mayor

The Mayor has access to the office and secretarial support at the cost of Council and is provided with the following:

2 bodyguards

1 driver

1 municipal vehicle purchased and 1 Leased Vehicle

Tools of trade as Gazette 43019: Determination of upper limit on Office bearers

The Mayor resigned on the 3rd of May 2019.

The Speaker

The Speaker has access to the office and secretarial support at the cost of Council and is provided with the following:

1 driver.

1 municipal leased vehicle.

Tools of trade as Gazette 43019: Determination of upper limit on Office bearers

The Speaker resigned on the 20th of May 2019.

The Deputy Mayor

The Deputy Mayor has access to the office at the cost of Council and is provided with the following:

1 driver.

1 municipal leased vehicle.

Tools of trade as Gazette 43019: Determination of Upper Limit of Office Bearers.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
31. Depreciation and amortisation		
Property, plant and equipment	28,820,509	26,829,490
Intangible assets	146,478	273,767
	28,966,987	27,103,257
32. Bulk purchases		
Electricity - Eskom	26,098,068	22,907,060
33. Impairment of assets		
Impairments		
Property, plant and equipment	1,330,530	609,185
The Enembe and a portion of Mafunda roads in Sundumbili Ward 14 and 15 were being rehabilitated to lay the blacktop layer and the sub base and replacement of some road structures. Stormwater drainage in the sports field were also impaired. This resulted in the roads and community assets being impaired. The recoverable amount of the asset was based on its fair value less costs to sell.		
34. Debt impairment		
Contributions to debt impairment provision	35,686,399	41,620,980
35. Lease rentals on operating lease		
Motor vehicles		
Contractual amounts	455,359	516,445
Equipment		
Contractual amounts	1,833,756	1,348,873
	2,289,115	1,865,318
36. Finance costs		
Trade and other payables	17,706	-
Finance leases	258,672	611,008
Retirement benefit obligation	1,887,000	1,778,000
Other interest paid	642,751	-
	2,806,129	2,389,008

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
37. Contracted services		
Consultants and Professional Services		
Business and advisory	1,656,974	1,509,127
Legal cost	1,496,735	4,690,653
Audit committee fees	134,923	48,475
Shared services	239,980	225,333
Contractors		
Fire services	3,626,407	2,837,948
Maintenance of buildings and facilities	11,333,822	18,776,690
Prepaid electricity vendors	750,178	520,081
Sports and recreation	50,000	86,957
Graphic designers	19,690	249,616
Outsourced Services		
Internal auditors	159,834	140,919
Transport services	452,321	895,685
Security services	9,748,879	8,606,674
Catering services	914,184	1,327,460
Animal care	-	638,000
Refuse removal	4,138,316	3,760,059
Cleaning services	398,703	273,823
Valuers	234,300	143,355
	35,355,246	44,730,855
38. Grants and subsidies paid		
Other subsidies		
Free basic electricity	1,498,873	1,340,017
39. General expenses		
Advertising	933,145	659,573
Auditors remuneration	2,366,563	1,942,626
Bank charges	397,440	398,167
Cleaning	3,500	35,730
Electricity - internal	1,173,550	1,039,515
Fuel and oil	3,595,696	3,979,728
Hire charges	2,241,584	1,916,833
LED Vuthela (SECO)	600,000	501,865
IT expenses	9,111	147,983
Insurance	771,135	614,653
LED programs	-	533,950
Levies	676,661	798,191
Licences	2,736,175	2,178,018
Hygiene and disinfecting services	317,420	-
Pauper / Indigent burial	191,800	219,635
Postage and courier	145,503	352,995
Printing and stationery	1,249,124	1,146,793
Staff welfare	143,952	70,740
Subscriptions and membership fees	716,781	37,087
Subsistence and travelling	1,059,197	1,554,378
Telephone and fax	3,288,493	3,495,022
Training	1,179,277	1,155,091
Uniforms	777,787	198,434
Ward committees	2,077,800	2,127,000
Water	655,026	942,491
Youth programs	579,587	596,181
	27,886,307	26,642,679

Mandeni Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
40. Fair value adjustments		
Investment property (Fair value model)	12,239,295	-
The property valuations have been carried out in terms of GRAP 16 by an Independent Professional Valuer i.e. BPG Mass Appraisals. Market value has been undertaken in accordance with standards laid down by the International Valuations Standards Council.		
41. Auditors' remuneration		
Fees	2,366,563	1,942,626
42. Cash generated from operations		
Surplus	37,878,584	23,865,131
Adjustments for:		
Depreciation and amortisation	28,966,987	27,103,257
Gain on sale of assets	740,108	1,036,323
Fair value adjustments	(12,239,295)	-
Impairment loss	1,330,530	609,185
Debt impairment	35,686,399	41,620,980
Movements in operating lease assets and accruals	(31,770)	(28,588)
Movements in retirement benefit assets and liabilities	1,701,119	194,000
Donated assets income (non cash)	(2,159,258)	(288,108)
Changes in working capital:		
Inventories	(471,257)	4,596
Receivables from exchange transactions	(33,355,474)	(38,321,331)
Receivables from non-exchange transactions	(3,868,537)	17,243,325
Payables from exchange transactions	666,125	(12,439,646)
VAT	1,727,261	9,614,864
Unspent conditional grants and receipts	16,342,404	(604,616)
Consumer deposits	(61,976)	(154,231)
	72,851,950	69,455,141

Mandeni Municipality

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Figures in Rand	2020	2019
43. Commitments		
Authorised capital expenditure		
Approved and contracted for		
• Property, plant and equipment	13,733,222	24,459,890
Total capital commitments		
Already approved and contracted for	13,733,222	24,459,890
Authorised operational expenditure		
Approved and contracted for		
• Operational expenditure	26,148,075	-
Total operational commitments		
Already approved and contracted for	26,148,075	-
Total commitments		
Total commitments		
Authorised capital expenditure	13,733,222	24,459,890
Authorised operational expenditure	26,148,075	-
	39,881,297	24,459,890
Finance leases - as lessee (expense)		
Minimum lease payments due		
- within one year	870,146	813,391
- in second to fifth year inclusive	893,490	1,890,284
- later than five years	-	-
	1,763,636	2,703,675
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	571,830	305,061
- in second to fifth year inclusive	877,733	45,190
	1,449,563	350,251

The municipality leases office space from MM Abrahams for two premises. The first lease for Renckens Super is effective from 1 October 2016 to 30 September 2021, with an annual escalation rate of 8%. The second lease is for Shop 12-13 and it is effective from 1 November 2017 to 31 October 2020, with an annual escalation rate of 9%.

There were no defaults or breaches and no terms or conditions were renegotiated during the reporting period.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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44. Contingencies

Contingent assets

Name of entity	Description	Attorney	Rand value 2020	Rand value 2019	Reference
RM Heslop	Labour court review	Matthew Francis Inc.	125,159	-	44.1
JD Biyela	Arbitration proceedings		102,000	-	44.2
			227,159	-	

Contingent liabilities

The following entities were identified as contingent liabilities stemming from the interaction with our municipal lawyers.

Name of entity	Description	Attorney	Rand value 2020	Rand value 2019	Reference
Independent Ethiopian Church of SA	Land dispute	TKN Incorporated	3,500,000	200,000	44.3
The Rate payers Association of Tugela Mouth	Court interdict	TKN Incorporated	2,000,000	-	44.4
Gert Golide Mthiyane and The Zion Combination Paradise Church	Court interdict	TKN Incorporated	256,021	-	
Inyoni Trust (Renasa insurance)	Loss on contractors default	Matthew Francis Inc.	100,000	100,000	44.5
Total client services	Reputation of contract	Matthew Francis Inc.	50,000	50,000	
B A Mchunu	Labour court review	Matthew Francis Inc.	100,000	70,000	44.6
R M Heslop	Labour court review	Matthew Francis Inc.	10,000	70,000	44.7
LQ Mtshali	Labour court review	Matthew Francis Inc.	100,000	70,000	44.8
CM Thabede	Labour court review	Matthew Francis Inc.	15,000	50,000	44.9
BL Mthethwa	Labour court review	Matthew Francis Inc.	-	25,000	44.10
ZR Buthelezi	Labour court review	Matthew Francis Inc.	-	70,000	44.11
BS Mthembu	Labour court review	Matthew Francis Inc.	-	50,000	44.12
MA Mthembu	Arbitration matter (dismissal)	Ngubane & Associates	1,615,205	-	44.13
Lateral Unison	Insurance claim	Matthew Francis Inc.	-	208,250	44.14
Boss Directories	Payment for service rendered	TPA Legal Inc.	902,469	-	44.15
			8,648,695	963,250	

- 44.1 The Municipality (along with the Commissioner who upheld the dismissal ruling) were taken to the Labour Court by a formerly dismissed employee. After years of court proceedings the employee/applicant withdrew the matter and the Municipality claimed for costs lost in defending the matter.
- 44.2 A dismissed employee referred an unfair dismissal dispute to the South African Bargaining Council and lost the dispute with costs to the favour of the municipality. The Award ruled that the dispute was frivolous and vexatious and therefore the applicant is held liable for costs.
- 44.3 The eviction in Court has been postponed to allow for an application for registration of a servitude which is already under way and Boshoff land surveyors in Ballito have been appointed to prepare diagrams to be used for the registration of Thokoza road servitude with the Master of the High Court in Pietermaritzburg.
- 44.4 Pleadings closed and the parties await trial dates to be allocated. Trial could last at least 7 days in Court.
- 44.5 Instructed to sue Renasa Insurance for damages due to the repudiation of a claim. Pleading in matter have been closed. We are in the pre-trial stage and need to arrange meetings with witnesses.

Mandeni Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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44. Contingencies (continued)

- 44.6 The Municipality (along with the Commissioner who upheld the dismissal ruling) was taken to the Labour Court by a formerly dismissed Traffic Officer. After years of court proceedings the employee/applicant has failed to put forward any further evidence and or documentation on the review however we still stand in defense as the respondent party.
- 44.7 The Municipality (along with the Commissioner who upheld the dismissal ruling) was taken to the Labour Court by a formerly dismissed employee. After years of court proceedings the employee/applicant withdrew the matter and the Municipality claimed for costs lost in defending the matter.
- 44.8 We were instructed to oppose a Labour Court review application. The applicant has been dilatory in setting the review down for hearing. We are thus in the process of preparing an application to have the review application dismissed.
- 44.9 Former Superintendent Public Safety referred Unfair Labour Practice Dispute to the Labour Court alleging that the employer did not pay him acting allowance for a particular period. Based on the delay from the applicant the employer has applied to the Labour Court for the matter to be dismissed.
- 44.10 The matter was withdrawn and closed.
- 44.11 The employee was reinstated by the municipality to do away with court proceedings.
- 44.12 The Municipality (along with the Commissioner who upheld the dismissal ruling) was taken to the Labour Court by a formerly dismissed Traffic Officer. After years of court proceedings the employee/applicant has failed to put forward any further evidence and or documentation on the review however we still stand in defense as the respondent party.
- 44.13 Former Manager Special Programme referred the matter to the SALGBC alleging unfair dismissal. The matter is still on arbitration level being heard by the Commissioner.
- 44.14 The insurance claim was processed and settled by insurers. This relates to the vehicle that was burnt down during community protests within the area.
- 44.15 Boss Directories is claiming payment for service rendered for the municipality. The municipality has no records of the ordered issued no supporting documents in respect of the funds being claimed.

45. Related parties

The key management remuneration is disclosed in note 29 - Employee related costs and note - 30 Remuneration of councillors.

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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46. Risk management

Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	18,209,193	-	-	-
Consumer deposits	380,067	-	-	-
At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Trade and other payables	17,543,070	-	-	-
Consumer deposits	442,043	-	-	-

Interest rate risk

Interest rate risk is the risk that the value of a financial instrument will fluctuate owing to changes in market interest rates. The municipality's level of borrowing and consequently the debt servicing costs are closely monitored and controlled by the EXCO having regard to the prevailing and projected interest rates and the municipality's capacity to service such debt from future earnings and allocations however the long term loan's interest rate is fixed throughout the term of repayment. Balances exposed to the interest rate risk. The municipality's policy is to further manage interest rate risks so that fluctuations in interest rates do not have a material impact on the net surplus/ deficit.

Investments	108,233,646	54,805,678
Cash and cash equivalents	2,912,431	5,801,020
	111,146,077	60,606,698

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

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

Trade and other receivables from exchange transactions	14,036,279	16,367,204
VAT receivable	2,483,602	4,210,863
	16,519,881	20,578,067

Mandeni Municipality

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Figures in Rand	2020	2019
47. Fruitless and wasteful expenditure		
Reconciliation of fruitless and wasteful expenditure		
Opening balance	516,244	589,821
Fruitless and wasteful expenditure current year	17,706	66,748
Written off by Council - relating to prior years	(516,244)	(140,325)
Written off by Council - relating to current year	(17,706)	-
To be recovered - contingent asset	-	-
Fruitless and wasteful expenditure awaiting approval for write off	-	516,244
Fruitless and wasteful expenditure for current year comprises of:		
Interest on overdue accounts	17,706	66,748
Fruitless and wasteful expenditure written off by Council comprises of:		
Interest on overdue accounts	17,706	109,754
Prior years interest and penalties on VAT	-	30,571
Prior year licence fees paid to activate current year licence	88,741	-
Deposit forfeited due to cancellation of event	427,503	-
	533,950	140,325
48. Irregular expenditure		
Opening balance as previously reported	29,107,291	11,725,861
Prior period error	-	-
Opening balance as restated	29,107,291	11,725,861
Add: Irregular Expenditure - current	11,219,697	21,773,114
Add: Irregular Expenditure - prior period	-	(4,391,684)
Less: Amount written off - current	(11,219,697)	-
Less: Amount written off - prior period	(29,107,291)	-
Closing balance	-	29,107,291
49. Unauthorised expenditure		
Opening balance as previously reported	28,022,764	-
Opening balance as restated	28,022,764	-
Add: Expenditure identified - current	-	28,022,764
Less: Authorised by council	(28,022,764)	-
Closing balance	-	28,022,764

The Council has authorised the unauthorised expenditure for 2018/19 to the amount of R28,022,764. No unauthorised expenditure has been incurred in the current year.

Mandeni Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
50. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	-	-
Current year subscription / fee	1,169,306	1,099,566
Amount paid - current year	(1,169,306)	(1,099,566)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-
Material losses through electricity distribution		
Current year subscription / fee	1,564,312	1,802,226
Audit fees		
Opening balance	-	-
Current year subscription / fee	2,366,563	1,942,626
Amount paid - current year	(2,366,563)	(1,942,626)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-
PAYE and UIF		
Opening balance	-	-
Current year subscription / fee	16,252,974	12,770,974
Amount paid - current year	(16,252,974)	(12,770,974)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-
Pension and Medical Aid Deductions		
Opening balance	-	-
Current year subscription / fee	14,120,584	9,125,586
Amount paid - current year	(14,120,584)	(9,125,586)
Amount paid - previous years	-	-
Balance unpaid (included in payables)	-	-
VAT		
VAT receivable	2,483,602	4,210,863

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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51. Deviation from supply chain management regulations

Contract awards made in terms of Section 36(1) of the SCM policy amounted to R866,070. Details of the awards are summarised in the below table:

Categories of SCM Regulations	SCM Reg reference	Number of cases	% of Total cases	Value (R)	% of Rand Value
In an emergency	36(1)(a)(i)	4	21	148,138	17
Services are available from a single provider	36(1)(a)(ii)	11	58	211,219	24
In any other exceptional case where it is impractical or impossible to follow the official procurement processes	36(1)(a)(v)	4	21	506,713	59
		19	100	866,070	100

Mandeni Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

52. Budget differences

Material differences between budget and actual amounts

The material difference between approved budget and actual result are the consequence of activities during the financial period. The changes between the approved and final budget are due to changes in the overall budget parameters.

Variances of more than 10% are considered material and are explained below.

	Budget	Actual	Variance	% Variance	References
Property rates	49,508,740	46,605,701	(2,903,039)	(6)%	
Service charges	41,388,603	38,443,301	(2,945,302)	(7)%	
Investment revenue	5,040,000	6,818,965	1,778,965	35 %	52.1
Transfers recognised - operational	177,264,260	175,085,522	(2,178,738)	(1)%	
Transfers recognised - capital	32,931,734	16,279,103	(16,652,631)	(51)%	52.2
Other own revenue	19,173,793	16,412,321	(2,761,472)	(14)%	52.3
	325,307,130	299,644,913	(25,662,217)		
Employee related costs	(106,958,305)	(101,311,214)	5,647,091	(5)%	
Remuneration of councillors	(13,762,161)	(13,248,529)	513,632	(4)%	
Debt impairment	(44,708,230)	(35,686,399)	9,021,831	(20)%	52.4
Depreciation and asset impairment	(30,803,844)	(30,297,517)	506,327	(2)%	
Finance charges	(538,577)	(258,672)	279,905	(52)%	52.5
Materials and bulk purchases	(25,856,404)	(26,098,068)	(241,664)	1 %	
Transfers and grants	(1,500,674)	(1,498,873)	1,801	- %	
Other expenditure	(98,151,386)	(53,367,057)	44,784,329	(46)%	52.6
	3,027,549	37,878,584	34,851,035		

- 52.1 The reason for a positive variance is due to the cash reserves of the municipality that increased in the current year. The municipality also had grant funds that were invested and not spent.
- 52.2 The municipality's actual grant income was less than the budgeted grant income. The reason for the variance was due to the municipal infrastructure grant. The grant was received but was not fully spent at year end. This is corroborated by the increase in unspent grants.
- 52.3 The actual other own revenue was less than budgeted. The main reason for the actual income to be less than the budget is due to the lockdown that was instituted by the President in March 2020.
- 52.4 The budgeted debt impairment is more than the actual amount. This is due to more debts being collected and interest on debtors in the last quarter was waived. The improved collection rate contributed to less debts being impaired.
- 52.5 The actual finance charges are less than the budgeted amount. This is due to less interest being incurred in the current financial year in respect of finance leases.
- 52.6 The actual general expenses are less than budgeted for. The main reason for this can be attributed to the lockdown that was instituted by the President in March 2020. As a result, actual operational expenses were lower.

53. Events after the reporting date

The Accounting Officer is not aware of any significant events after the reporting date.

54. Significant matters

On 23 March 2020, the President, in terms of Section 27(1) of the Disaster Management Act announced a nationwide lockdown due to the COVID-19 pandemic. The pandemic has impacted many industries including local government. The Municipality has put in place measures to adhere to safety requirements for the protection of employees, customers and the general public. The Municipality has received the disaster relief grant and procured protective personal equipment relating to COVID-19.

Mandeni Municipality

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Notes to the Annual Financial Statements

55. Comparative figures

Certain comparatives have been restated. Certain items of infrastructure assets were previously included in community assets. This resulted in infrastructure assets being understated and community assets being overstated. The results of the reclassification are presented below:

Statement of financial position

2019

	Note	As previously reported	Reclassification	Restated
Property, plant and equipment				
Infrastructure	10	317,312,758	1,225,341	318,538,099
Community	10	63,833,332	(1,225,341)	62,607,991
		381,146,090	-	381,146,090

There was no effect of the reclassification of property, plant and equipment on the statement of cash flows.

Cash flow statement

Presented below are those items contained in the cash flow statement that have been affected by prior-year adjustments:

2019

	Note	As previously reported	Prior year adjustments	Restated
Cash flow from operating activities				
Receipts				
Taxation		55,466,443	(38,321,331)	17,145,112
Sale of goods and services		34,270,097	17,243,325	51,513,422
Payments				
Employee costs		(97,954,026)	525,715	(97,428,311)
Suppliers		(120,861,420)	20,552,291	(100,309,129)

Mandeni Municipality
Appendix A

Schedule of external loans as at 30 June 2020

	Balance at 30 June 2019	Received during the period	Redeemed written off during the period	Balance at 30 June 2020	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
	Rand	Rand	Rand	Rand		
Lease liability						
Finance lease obligation	2,703,675	-	940,039	1,763,636	-	-
	2,703,675	-	940,039	1,763,636	-	-
Total external loans						
Lease liability	2,703,675	-	940,039	1,763,636	-	-
	2,703,675	-	940,039	1,763,636	-	-

Mandeni Municipality
Mandeni Municipality
Appendix B

Analysis of property, plant and equipment as at 30 June 2020
Cost/Revaluation **Accumulated depreciation**

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	18,400,000	-	-	-	-	-	18,400,000	-	-	-	-	-	-	18,400,000
Buildings (Separate for AFS purposes)	24,468,125	5,790,305	(23,654)	(3,571,137)	-	-	26,663,639	(1,558,968)	5,650	-	(681,823)	-	(2,235,141)	24,428,498
	42,868,125	5,790,305	(23,654)	(3,571,137)	-	-	45,063,639	(1,558,968)	5,650	-	(681,823)	-	(2,235,141)	42,828,498
Infrastructure														
Other	450,823,109	19,466,883	(8,000)	(6,255,565)	-	(3,687,703)	460,338,724	(133,510,351)	2,609,109	-	(21,574,854)	-	(152,476,096)	307,862,628
	450,823,109	19,466,883	(8,000)	(6,255,565)	-	(3,687,703)	460,338,724	(133,510,351)	2,609,109	-	(21,574,854)	-	(152,476,096)	307,862,628
Community Assets														
Other	80,361,192	2,748,033	-	-	-	(324,455)	82,784,770	(16,527,860)	80,518	-	(3,016,523)	-	(19,463,865)	63,320,905
	80,361,192	2,748,033	-	-	-	(324,455)	82,784,770	(16,527,860)	80,518	-	(3,016,523)	-	(19,463,865)	63,320,905

Mandeni Municipality
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Appendix B

Analysis of property, plant and equipment as at 30 June 2020

Cost/Revaluation						Accumulated depreciation							
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

Other assets

Other	37,399,290	5,344,307	(2,259,123)	-	-	-	40,484,474	(16,392,838)	1,541,349	-	(3,547,309)	-	(18,398,798)	22,085,676
	37,399,290	5,344,307	(2,259,123)	-	-	-	40,484,474	(16,392,838)	1,541,349	-	(3,547,309)	-	(18,398,798)	22,085,676

**Mandeni Municipality
Mandeni Municipality
Appendix B**

Analysis of property, plant and equipment as at 30 June 2020	
Cost/Revaluation	Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment														
Land and buildings	42,868,125	5,790,305	(23,654)	(3,571,137)	-	-	45,063,639	(1,558,968)	5,650	-	(681,823)	-	(2,235,141)	42,828,498
Infrastructure	450,823,109	19,466,883	(8,000)	(6,255,565)	-	(3,687,703)	460,338,724	(133,510,351)	2,609,109	-	(21,574,854)	-	(152,476,096)	307,862,628
Community Assets	80,361,192	2,748,033	-	-	-	(324,455)	82,784,770	(16,527,860)	80,518	-	(3,016,523)	-	(19,463,865)	63,320,905
Other assets	37,399,290	5,344,307	(2,259,123)	-	-	-	40,484,474	(16,392,838)	1,541,349	-	(3,547,309)	-	(18,398,798)	22,085,676
	611,451,716	33,349,528	(2,290,777)	(9,826,702)	-	(4,012,158)	628,671,607	(167,990,017)	4,236,626	-	(28,820,509)	-	(192,573,900)	436,097,707
Intangible assets														
Computer software	1,881,159	142,000	(257,821)	-	-	-	1,765,338	(1,045,306)	206,256	-	(146,478)	-	(985,528)	779,810
	1,881,159	142,000	(257,821)	-	-	-	1,765,338	(1,045,306)	206,256	-	(146,478)	-	(985,528)	779,810
Investment properties														
Investment property	57,876,705	-	-	-	12,239,295	-	70,116,000	-	-	-	-	-	-	70,116,000
	57,876,705	-	-	-	12,239,295	-	70,116,000	-	-	-	-	-	-	70,116,000
Total														
Land and buildings	42,868,125	5,790,305	(23,654)	(3,571,137)	-	-	45,063,639	(1,558,968)	5,650	-	(681,823)	-	(2,235,141)	42,828,498
Infrastructure	450,823,109	19,466,883	(8,000)	(6,255,565)	-	(3,687,703)	460,338,724	(133,510,351)	2,609,109	-	(21,574,854)	-	(152,476,096)	307,862,628
Community Assets	80,361,192	2,748,033	-	-	-	(324,455)	82,784,770	(16,527,860)	80,518	-	(3,016,523)	-	(19,463,865)	63,320,905
Other assets	37,399,290	5,344,307	(2,259,123)	-	-	-	40,484,474	(16,392,838)	1,541,349	-	(3,547,309)	-	(18,398,798)	22,085,676
Intangible assets	1,881,159	142,000	(257,821)	-	-	-	1,765,338	(1,045,306)	206,256	-	(146,478)	-	(985,528)	779,810
Investment properties	57,876,705	-	-	-	12,239,295	-	70,116,000	-	-	-	-	-	-	70,116,000
	671,209,580	33,491,528	(2,548,598)	(9,826,702)	12,239,295	(4,012,158)	700,552,945	(169,035,323)	4,442,882	-	(28,966,987)	-	(193,559,428)	506,993,517

**Mandeni Municipality
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Appendix B**

Analysis of property, plant and equipment as at 30 June 2019	
Cost/Revaluation	Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Land and buildings														
Land (Separate for AFS purposes)	18,400,000	-	-	-	-	-	18,400,000	-	-	-	-	-	-	18,400,000
Buildings (Separate for AFS purposes)	22,720,807	16,132,428	-	(14,385,109)	-	-	24,468,126	(1,277,355)	4,117	-	(285,730)	-	(1,558,968)	22,909,158
	41,120,807	16,132,428	-	(14,385,109)	-	-	42,868,126	(1,277,355)	4,117	-	(285,730)	-	(1,558,968)	41,309,158
Infrastructure														
Other	428,358,010	77,662,971	(55,197,872)	-	-	-	450,823,109	(117,879,433)	5,304,712	-	(20,349,467)	(586,163)	(133,510,351)	317,312,758
	428,358,010	77,662,971	(55,197,872)	-	-	-	450,823,109	(117,879,433)	5,304,712	-	(20,349,467)	(586,163)	(133,510,351)	317,312,758
Community Assets														
Other	73,009,585	11,689,958	(4,338,351)	-	-	-	80,361,192	(13,911,205)	121,646	-	(2,715,279)	(23,022)	(16,527,860)	63,833,332
	73,009,585	11,689,958	(4,338,351)	-	-	-	80,361,192	(13,911,205)	121,646	-	(2,715,279)	(23,022)	(16,527,860)	63,833,332

Mandeni Municipality
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Appendix B

Analysis of property, plant and equipment as at 30 June 2019

Cost/Revaluation						Accumulated depreciation							
Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand

Other assets

Other	34,406,568	7,026,911	(4,034,189)	-	-	-	37,399,290	(15,550,314)	2,636,492	-	(3,479,015)	-	(16,392,837)	21,006,453
	34,406,568	7,026,911	(4,034,189)	-	-	-	37,399,290	(15,550,314)	2,636,492	-	(3,479,015)	-	(16,392,837)	21,006,453

**Mandeni Municipality
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Appendix B**

Analysis of property, plant and equipment as at 30 June 2019	
Cost/Revaluation	Accumulated depreciation

	Opening Balance Rand	Additions Rand	Disposals Rand	Transfers Rand	Revaluations Rand	Other changes, movements Rand	Closing Balance Rand	Opening Balance Rand	Disposals Rand	Transfers Rand	Depreciation Rand	Impairment loss Rand	Closing Balance Rand	Carrying value Rand
Total property plant and equipment														
Land and buildings	41,120,807	16,132,428	-	(14,385,109)	-	-	42,868,126	(1,277,355)	4,117	-	(285,730)	-	(1,558,968)	41,309,158
Infrastructure	428,358,010	77,662,971	(55,197,872)	-	-	-	450,823,109	(117,879,433)	5,304,712	-	(20,349,467)	(586,163)	(133,510,351)	317,312,758
Community Assets	73,009,585	11,689,958	(4,338,351)	-	-	-	80,361,192	(13,911,205)	121,646	-	(2,715,279)	(23,022)	(16,527,860)	63,833,332
Other assets	34,406,568	7,026,911	(4,034,189)	-	-	-	37,399,290	(15,550,314)	2,636,492	-	(3,479,015)	-	(16,392,837)	21,006,453
	576,894,970	112,512,268	(63,570,412)	(14,385,109)	-	-	611,451,717	(148,618,307)	8,066,967	-	(26,829,491)	(609,185)	(167,990,016)	443,461,701
Intangible assets														
Computer software	2,190,214	86,956	(396,011)	-	-	-	1,881,159	(1,085,480)	313,941	-	(273,767)	-	(1,045,306)	835,853
	2,190,214	86,956	(396,011)	-	-	-	1,881,159	(1,085,480)	313,941	-	(273,767)	-	(1,045,306)	835,853
Investment properties														
Investment property	57,918,705	-	(45,000)	-	-	-	57,873,705	-	-	-	-	-	-	57,873,705
	57,918,705	-	(45,000)	-	-	-	57,873,705	-	-	-	-	-	-	57,873,705
Total														
Land and buildings	41,120,807	16,132,428	-	(14,385,109)	-	-	42,868,126	(1,277,355)	4,117	-	(285,730)	-	(1,558,968)	41,309,158
Infrastructure	428,358,010	77,662,971	(55,197,872)	-	-	-	450,823,109	(117,879,433)	5,304,712	-	(20,349,467)	(586,163)	(133,510,351)	317,312,758
Community Assets	73,009,585	11,689,958	(4,338,351)	-	-	-	80,361,192	(13,911,205)	121,646	-	(2,715,279)	(23,022)	(16,527,860)	63,833,332
Other assets	34,406,568	7,026,911	(4,034,189)	-	-	-	37,399,290	(15,550,314)	2,636,492	-	(3,479,015)	-	(16,392,837)	21,006,453
Intangible assets	2,190,214	86,956	(396,011)	-	-	-	1,881,159	(1,085,480)	313,941	-	(273,767)	-	(1,045,306)	835,853
Investment properties	57,918,705	-	(45,000)	-	-	-	57,873,705	-	-	-	-	-	-	57,873,705
	637,003,889	112,599,224	(64,011,423)	(14,385,109)	-	-	671,206,581	(149,703,787)	8,380,908	-	(27,103,258)	(609,185)	(169,035,322)	502,171,259

Mandeni Municipality

Appendix F

Disclosures of Grants and Subsidies in terms of Section 123 MFMA, 56 of 2003

Name of Grants	Name of organ of state or municipal entity	Quarterly Receipts				Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for noncompliance
		Sep	Dec	Mar	Jun			
EPWP Grant	Department of Public Works	559,000	1,006,000	669,000	-		Yes	
Library KZNPA	Department of Arts and Culture	-	3,868,000	-	-		Yes	
Sports and Recreation Grant	Department of Sports and Recreation	-	-	-	-		Yes	
NDP Grant	National Treasury	-	-	-	-		Yes	
MIG	National Treasury	12,000,000	-	14,269,000	-		Yes	
GIS Pertinent	Department of COGTA	750,000	-	-	-		Yes	
INEP Grant	National Treasury	-	4,750,000	4,750,000	-		Yes	
FMG	National Treasury	1,900,000	-	-	-		Yes	
Equitable share	National Treasury	69,785,000	55,828,000	41,870,000	-		Yes	
SITA	LG SETA	-	-	-	-		Yes	
Housing Title Deeds	Department of Human Settlements	-	-	-	-		Yes	
Disaster Grant	Department of COGTA	-	-	-	745,000		Yes	
		-	-	-	-			
		-	-	-	-			
		84,994,000	65,452,000	61,558,000	745,000			