NTINGA O. R. TAMBO DEVELOPMENT AGENCY

NTINGA O. R. TAMBO DEVELOPMENT AGENCY SOC LTD

(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION NUMBER: 2016/272582/30)

SOC Ltd

ANNUAL FINANCIAL STATEMENTS

30 JUNE 2019

NTINGA O. R. TAMBO DEVELOPMENT AGENCY SOC LTD

(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION NUMBER: 2016/272582/30)

Index

Contents	Page

NTINGA O. R. TAMBO DEVELOPMENT AGENCY SOC LTD

(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION NUMBER: 2016/272582/30)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

GENERAL INFORMATION

NATURE OF BUSINESS

Service Delivery vehicle of the parent municipality, O.R. Tambo District Municipality.

LEGAL FORM

A municipal entity of the O.R. Tambo District Municipality as defined by the Municipal Structures Act. (Act no 117 of 1998)

CHIEF EXECUTIVE OFFICER

Mr. P.K. PONGWANA

CHIEF FINANCIAL OFFICER

Mr. L. MBIKO

REGISTERED OFFICE

Old Government Printers Building, 5 Textile Road, Vulindlela Heights, Southernwood, Mthatha

EXTERNAL AUDITORS

Auditor General South Africa

PRINCIPAL BANKERS

First National Bank

MOST RELEVANT LEGISLATION

- Constitution of the Republic of South Africa (Act no. 108 of 1996)
- Municipal Finance Management Act (Act no 56 of 2003) (MFMA)
- Division of Revenue Act (Act No.3 of 2016)
- The Income Tax Act (Act no. 58 of 1962)
- Value Added Tax Act (Act no. 89 of 1991)
- Local Government: Municipal Structures Act (Act no 117 of 1998)
- Local Government: Municipal Systems Act (Act no 32 of 2000)
- Municipal Planning and Performance Management Regulations of 2001 issued in terms of Local Government: Municipal Systems Act (Act no. 32 of 2000)
- Skills Development Levies Act (Act no 9 of 1999)
- Employment Equity Act (Act no 55 of 1998)
- Unemployment Insurance Act (Act no 30 of 1966)
- Basic Conditions of Employment Act (Act no 75 of 1997)
- Supply Chain Management Regulations, 2005 issued in terms of Local Government: Municipal Finance Management Act (Act no. 56 of 2003)
- South African Local Government Bargaining Council - Collective Agreement on Leave
- Companies Act (Act 71 of 2008)

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(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION NUMBER: 2016/272582/30)

ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

ACCOUNTING OFFICER'S RESPONSIBILITIES AND APPROVAL

The accounting officer is required by the Municipal Finance Management Act, 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 his responsibility to ensure that the annual financial statements fairly present the state of affairs of the Entity as at the end of the financial year and the results of its operations and cash flows for the period then ended, in conformity with Generally Recognised Accounting Practice (GRAP). The external auditors are engaged to express an independent opinion on the annual financial statements.

The annual financial statements are prepared in accordance with Generally Recognised Accounting Practice (GRAP) and the MFMA, and are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgments and estimates.

The external auditors are responsible for independently providing reasonable assurance by reviewing and reporting on the Entity's annual financial statements.

The annual financial statements set out on pages 6 to 50, which have been prepared on the going concern basis, were approved by the board and were signed on its behalf by:

Mr L. Mbiko
(Chief Financial Officer)

26 November 2019
Date

Mr P.K. Pongwana
(Chief Executive Officer)

26 NOVEMBER 2019
Date

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(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION NUMBER: 2016/272582/30)

DIRECTORS REPORT

Directors submit their report for the year ended 30 June 2019.

1 Main business and operations

The Ntinga O.R. Tambo Development Agency, a municipal entity established by the O.R. Tambo District Municipality (ORTDM) performs activities which falls within the functions and powers of district municipalities as contemplated in Section 84(1) of the Municipal Structures Act, 1998 (Act 117 of 1998), in particular Section 84 (1).

2 Taxation

The Entity started operating as a State Owned Company with effect from 01 July 2017 and therefore liable for Income Tax.

3 Board of Directors

The directors of the Entity appointed for a period of three years were as follows:

Name	Nationality	Appointment date
Mr. S. Mase (Chairperson)	RSA	01 July 2017
Prof. L. Majova-Songca (Deputy Chairperson)	RSA	01 July 2017
Mr M. Msiwa	RSA	01 July 2017
Mrs U. Mkize	RSA	01 July 2017
Dr L. Ndabeni	RSA	01 July 2017
Ms N. Bam	RSA	01 July 2017
Dr. N.L. Ndudane	RSA	01 July 2017
Mr. M. Pupuma	RSA	01 July 2017
Mrs. N. Ngewu	RSA	01 July 2017

4 Entity Company Secretary

The Acting Company Secretary for the year was Ms N Mningiswa.

5 Business Address:

Old Government Printers Building, 5 Textile Road, Vulindlela Heights, Mthatha, 5100

6 Physical Address:

Old Government Printers Building, 5 Textile Road, Vulindlela Heights, Mthatha, 5100

7 Postal Address:

P.O. Box 1134, Mthatha, 5100

8 Members of the Audit and Risk Committee (ARC)

The members of the ARC were as follows:-

Prof. L. Majova-Songca (Chairperson)

Mrs U. Mkize
Mr M. Msiwa

Mrs N. Makuni - Independent Member

DIRECTORS REPORT

9 Members of the Human Resource and Remuneration Committee

The members of the Human Resource and Remuneration Committee (HRRC) were as follows:-

Mr. M. Pupuma (Chairperson)
Mrs U. Mkize
Dr L. Ndabeni
Ms N. Bam
Dr. N.L. Ndudane
Mrs. N. Ngewu

10 Members of the Strategy Development and Investment Committee

The members of Strategy Development and Investment Committee (SDIC) were as follows:-

Mr M. Msiwa (Chairperson)
Dr L. Ndabeni
Ms N. Bam
Dr. N.L. Ndudane
Mr. M. Pupuma

11 Members of the Social and Ethics Committee

The members of Social and Ethics Committee (SEC) were as follows:-

Mrs U. Mkize (Chairperson)
Mrs. N. Ngewu
Dr L. Ndabeni

12 The Entity's Mandate

The mandate given to the Entity by the Parent Municipality include rendering services in the following areas:

- Intergrated Development Plan;
- Potable Water Supply Systems;
- Domestic and Industrial Waste-water and Sewage Disposal Systems;
- Fresh Produce Markets and Abattoirs;
- Local Tourism Promotion;
- Municipal Public Works;
- Collection of taxes, Levies and Duties, and
- Discretionary Activities (which include):

(a) Any other activity agreed upon with the Parent Municipality, Provincial and National Governments and the Private Sector.

13 Financial results

The Entity made a deficit of R 6,618,073 (2018: surplus R 56,435,012).

DIRECTORS REPORT

14 Legal form of the entity

The Entity is a Municipal Entity incorporated as a State Owned Company in terms of the Companies Act.

15 Going concern

The parent municipality, O.R. Tambo District Municipality, continues to provide financial support to the Entity. There is commitment by the parent to continue funding the entity until it is self sustainable. The Entity is implementing a strategy that is focused on generating own revenue thereby reducing reliance on grant funding.

16 Events after the reporting date

There were no material events that ocurred after the reporting date.

17 Holding Entity

The holding entity is the O.R. Tambo District Municipality.

18 External Auditors

Auditor General of South Africa (Eastern Cape) will continue in office in accordance with the MFMA.

19 Website www.ntinga.org.za

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(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION NUMBER: 2016/272582/30)

STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2019

	Notes	30 JUNE 2019 R (Actual)	2018 R (Actual)
ASSETS			
Current Assets		**25,085,112**	**36,305,030**
Cash and Cash Equivalents	2	6,282,309	30,880,252
Receivables from exchange transactions	3	11,220,406	1,651,914
Inventory	4	170,266	982,361
Receivables from non-exchange transactions	5	192,578	924,076
Deferred tax	7	7,219,552	1,866,427
Non-Current Assets		**75,534,185**	**66,808,313**
Property, Plant and Equipment	8	61,518,434	54,931,718
Intangible Assets	9	781,249	644,144
Biological Assets	10	13,234,503	11,232,450
Total Assets		**100,619,297**	**103,113,342**
NET ASSETS AND LIABILITIES			
Current Liabilities		**15,227,850**	**11,103,822**
Payables from exchange transactions	11	5,047,079	5,157,797
Payables from non-exchange transactions	12	446,974	446,973
Unspent Conditional Government Grants and Receipts	13	3,290,842	1,766,208
Current Employee benefits	14	3,788,396	3,144,234
Taxes	6	2,654,559	588,611
Net Assets		**85,391,447**	**92,009,520**
Accumulated Surplus		85,391,447	92,009,520
Total Net Assets and Liabilities		**100,619,297**	**103,113,342**

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(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION NUMBER: 2016/272582/30)

STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

	Notes	30 JUNE 2019 (Actual) R	2018 (Actual) R
REVENUE			
Non-exchange Revenue		**34,505,610**	**37,961,992**
Transfers and Subsidies	16	34,505,610	37,961,992
Exchange Revenue		**26,363,424**	**17,060,734**
Interest Earned - external investments		1,155,693	2,273,039
Sale of Goods and Rendering of Services	17	25,207,731	14,787,695
Gains		**15,007,789**	**66,844,702**
Adjustments to Biological Assets	18.1	4,013,157	4,285,693
Gains on disposal of Property, Plant and Equipment		213,286	300,514
Intercompany Transactions - Donation of Assets		10,781,346	62,258,495
Total Revenue		**75,876,823**	**121,867,428**
EXPENDITURE			
Employee related costs	19	41;536,267	34,274,310
Board of directors related costs	20	1,411,292	1,726,108
Debt Impairment	21	-	387,582
Depreciation and Amortisation	22	4,237,152	4,016,134
Impairments - Property, Plant and Equipment	24	-	4,530,506
Repairs and Maintenance		486,596	216,572
Finance Charges	24	40,571	31,770
Operational costs	25	37,949,798	19,739,478
Contracted services	26	1,731,694	2,065,540
Losses - Biological Assets	18.2	454,650	310,844
Total Expenditure		**87,848,020**	**67,298,844**
(Loss)/Profit before tax for the year		**(11,971,197)**	**54,568,585**
Income tax	7	5,353,124	1,866,427
(Loss)/Profit after tax for the year		**(6,618,073)**	**56,435,012**

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(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION NUMBER: 2016/272582/30)

STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED 30 JUNE 2019

	Accumulated Surplus/ (Deficit)	Total
	R	R
Balance at 1 JULY 2017	**35,574,508**	**35,574,508**
Net Surplus for the year	56,435,012	56,435,012
Restated Balance at 30 JUNE 2018	**92,009,520**	**92,009,520**
Net Deficit for the period	(6,618,073)	(6,618,073)
Balance at 30 JUNE 2019	**85,391,447**	**85,391,447**

NTINGA O. R. TAMBO DEVELOPMENT AGENCY SOC LTD

(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION NUMBER: 2016/272582/30)

CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

	Notes	30 JUNE 2019 R	30 JUNE 2018 R
CASH FLOW FROM OPERATING ACTIVITIES			
Receipts			
Grants and public contributions		34,505,610	43,778,466
Sales of goods and services		16,370,736	12,597,748
Interest Earned - external investments		1,155,693	2,273,039
Payments			
Suppliers		(27,944,255)	(26,255,987)
Employees and directors		(42,947,559)	(36,000,418)
Finance charges		(40,571)	(31,770)
Cash utilised by operations	**27**	**(18,900,347)**	**(3,638,922)**
CASH FLOW FROM INVESTING ACTIVITIES			
Purchase of Property, Plant and Equipment	**30**	(7,640,902)	(4,612,167)
Proceeds on Disposal of Fixed Assets		702,431	607,921
Purchase of Intangible Assets		(315,580)	-
Purchase of Biological assets		(1,112,402)	(1,203,766)
Proceeds on Disposal of Biological assets		2,668,856	2,210,953
Net Cash from Investing Activities		**(5,697,597)**	**(2,997,059)**
CASH FLOW FROM FINANCING ACTIVITIES			
Net Cash from Financing Activities		**-**	**-**
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(24,597,944)**	**(6,635,981)**
Cash and Cash Equivalents at the beginning of the year		30,880,253	36,254,354
Cash and Cash Equivalents transferred from KFPM		-	1,261,880
Cash and Cash Equivalents at the end of the year	**28**	6,282,309	30,880,253
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(24,597,944)**	**(6,635,981)**

NTINGA O. R. TAMBO DEVELOPMENT AGENCY SOC LTD
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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019
COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET

	2019 R (Actual)	2019 R (Final Budget)	2019 R (Variance)	Explanations for material variances
ASSETS				
Current assets				
Cash and cash equivalents	6,282,309	22,398,430	(16,116,121)	This is due to non realisation of revenue targets. Trading enterprises have been capitalised using the Entity's cash reserves. We expect return to realise return on investment in 2 to 5 years.
Receivables from exchange transactions	11,220,406	1,100,000	10,120,406	This is mainly due to a water services invoice that were settled by the parent municipality after year-end. We anticipated such invoices to be settled within 30 days but there were delays in receiving payments.
Inventory	170,266	200,000	(29,734)	Variance is insigificant.
Receivables from non-exchange transactions	192,578	120,000	72,578	The significant portion of the balance is made up of deposit payments made by the entity for consumption of services. The balance was under-estimated at the budgeting stage.
Taxes	7,219,552	1,866,427	5,353,125	Our projections were that the entity would make profits hence there would be no increase in the deferred tax asset. However, the profits have not yet been realised hence the variance.
Total current assets	**25,085,112**	**25,684,857**	**(599,745)**	
Non current assets				
Property, plant and equipment	61,518,434	61,317,201	201,233	Variance is insigificant.
Intangible Assets	781,249	449,144	332,105	Due to operational requirement a need arose to acquire instead of renting, more software licenses for the effective functioning of the Board of Directors and administration.
Biological Assets	13,234,503	11,362,450	1,872,053	The strategy was to fatten some of the existing own livestock and then take it to the abattoir for slaughter. There was a delay in implementing the fattening programme hence the higher than projected amount of biological assets at year end.
Total non current assets	**75,534,186**	**73,128,795**	**2,405,390**	
TOTAL ASSETS	**100,619,297**	**98,813,652**	**1,805,645**	
NET ASSETS AND LIABILITIES				
Current liabilities				
Payables from exchange transactions	5,047,079	3,000,000	2,047,079	The amount of liabilities to remain at year was under estimated.
Payables from non-exchange transactions	446,973	446,973	-	There is no variance. This creditor advised the entity advised the entity to delay settling the balance until they their settle their internal processes.
Unspent Conditional Government Grants and Receipts	3,290,842	-	3,290,842	The balance is primarily made up of funds held for RAFI and Cooperative Development Centre projects. There were changes in plans pertaining to these projects hence their budgets were not spent in full.
Current Employee benefits	3,788,396	2,420,000	1,368,396	A higher than projected number of staff annual leave days remained at the end of the financial year. This resulted to a higher provision amount.
Taxes	2,654,559	350,000	2,304,559	This relates to Vat amount payable. The entity accounts Vat on a payment basis. There were invoices issued but were not settled by customers by the end of the financial year hence the higher than projected balance.
Total current liabilities	**15,227,849**	**6,216,973**	**9,010,876**	
TOTAL LIABILITIES	15,227,849	6,216,973	9,010,876	
NET ASSETS	85,391,448	92,596,679	(7,205,231)	
COMMUNITY WEALTH				
Accumulated Surplus	85,391,448	92,596,679	(7,205,231)	
TOTAL COMMUNITY WEALTH/EQUITY	85,391,448	92,596,679	(7,205,231)	

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL POSITION AT 30 JUNE 2019

ADJUSTMENTS TO APPROVED BUDGET

	2019 R (Original Budget)	2019 R (Adjustments)	2019 R (Final Budget)	Explanations for material adjustments
ASSETS				
Current assets				
Cash and Cash equivalents	25,866,117	(3,467,687)	22,398,430	The downward adjustment was due to reduction in revenue projections.
Receivables from exchange transactions	1,100,000	-	1,100,000	Budget item was not adjusted.
Inventory	200,000	-	200,000	Budget item was not adjusted.
Taxes	-	1,866,427	1,866,427	This asset was recognised after the original budget had already been approved hence the adjustment.
Receivables from non-exchange transactions	120,000	-	120,000	Budget item was not adjusted.
Total current assets	**27,286,117**	**(1,601,260)**	**25,684,857**	
Non current assets				
Property, plant and equipment	19,581,053	41,736,148	61,317,201	Some of the assets that were transferred to the entity by the parent municipality were errorneously omitted on the original budget and were included in the adjusted budget.
Intangible Assets	200,000	249,144	449,144	Some of the assets were errorneously omitted on the original budget and were included in the adjusted budget.
Biological Assets	210,000	11,152,450	11,362,450	Some of the assets were errorneously omitted on the original budget and were included in the adjusted budget.
Total non current assets	**19,991,053**	**53,137,742**	**73,128,795**	
TOTAL ASSETS	**47,277,170**	**51,536,482**	**98,813,652**	
LIABILITIES				
Current liabilities				
Payables from exchange transactions	800,000	2,200,000	3,000,000	Budget estimate was revised based on the previous financial year's audited financial information.
Payables from non-exchange transactions	-	446,973	446,973	Budget estimate was revised based on the previous financial year's audited financial information.
Unspent Conditional Government Grants and Receipts	500,000	(500,000)	-	Indications were that the unspent grants balance would be spent in full by the end of the financial year.
Current Employee benefits	800,000	1,620,000	2,420,000	Budget estimate was revised based on the previous financial year's audited financial information.
Taxes	350,000	-	350,000	Budget item was not adjusted.
Total current liabilities	**2,450,000**	**3,766,973**	**6,216,973**	
Non current liabilities				
Total non current liabilities	-	-	-	
TOTAL LIABILITIES	2,450,000	3,766,973	6,216,973	
NET ASSETS	44,827,170	47,769,509	92,596,679	
COMMUNITY WEALTH				
Accumulated Surplus/(Deficit)	44,827,170	47,769,509	92,596,679	
TOTAL COMMUNITY WEALTH/EQUITY	44,827,170	47,769,509	92,596,679	

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(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION NUMBER: 2016/272582/30)

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET

	2019 R (Actual)	2019 R (Final Budget)	2019 R (Variance)	Explanations for material variances
REVENUE BY SOURCE				
Non-exchange Revenue	**34,505,610**	**29,328,151**	**5,177,459**	
Transfers and Subsidies	34,505,610	29,328,151	5,177,459	Variance is insignificant.
Exchange Revenue	**26,363,424**	**68,606,318**	**(42,142,894)**	
Interest Earned - external investments	1,155,693	2,500,000	(1,344,307)	Lower than anticipated revenue collection levels and other funding for special projects that was not received contributed to the undercollection of interest revenue.
Sales of Goods and Rendering of Services	25 207 731	66 006 318	(40 798 587)	There is a combined under-collection of revenue amounting to R20.8m across all trading enterprises. Plans to turnaround financial performance were not yet fully effective and some were hampered by legal challenges. It took a long time to resolve some operational challenges that negatively affected revenue generation. As far as water services is concerned there is an under-collection of revenue amounting to R6.5m due to prolonged resolution of invoicing and payment issues between the entity and the parent municipality. Lastly, budget amounting to R7.5m set aside for special projects that were to be implemented on behalf of the parent municipality was not received. Such special projects are revival of old business properties, regional television station and acquisition of RAFI implements. The latter project was implemented directly by the parent municipality.
Gains	**15,007,789**	**110,000**	**14,897,789**	
Adjustments to Biological Assets	4,013,157	70,000	3,943,157	Budget amount related to livestock births. However, the actual amount includes year-end valuation of all livestock and this was not part of the budget. Of the actual amount, R94 600 relates livestock births.
Gain on disposal of Property, Plant and Equipment	213,286	40,000	173,286	We anticipated a minor disposal of assets for the year and a small profit was projected. Following routine verification of assets more assets were identified to be redundant and they were disposed resulting in batter profit.
Intercompany Transactions - Donation of Assets	10 781 346	-	10,781,346	This relates to the fair value of assets that were transferred to the Entity by the parent municipality for a special project. This was not factored in the budget hence the variance.
Total Revenue	**75,876,823**	**97,944,469**	**(22,067,646)**	
EXPENDITURE				
Employee related costs	41,536,267	42,637,488	(1,101,221)	There were two senior management resignations during the year and the vacancies were filled after year-end.
Board of directors related costs	1,411,292	1,540,000	(128,708)	Meetings were arranged such there are savings in board related costs.
Debt Impairment	-	-	-	
Depreciation and Amortisation	4,237,152	4,723,570	(486,418)	Some of the assets were disposed during the year the variance. In addition, some of the assets purchased during the year were brought into use later than the anticipated time.
Repairs and Maintenance	486,596	340,189	146,407	There were more break downs of assets than anticipated. Additional expenditure was funded by shifting of funds between budget line items.
Finance Charges	40,571	35,000	5,571	Variance is caused by interest charged on municipal services accounts which was not anticipated. Municipality did not deliver municipal accounts on time hence they were not paid on time.
Operational Costs and Contracted Services	39,681,492	47,931,061	(8,249,569)	The main contributor to the variance is livestock purchases for sale of meat at the abattoir. Although turaround plans were place they were not yet fully effective hence a lesser than than projected amount was spent on livestock purchases.
Losses - Biological Assets	454,650	150,000	304,650	There were more deaths of animals than projected. However, the death rate is still within the industry norm of between 10 to 15%.
Total Expenditure	**87,848,020**	**97,357,308**	**(9,509,288)**	
NET SURPLUS / (DEFICIT) FOR THE PERIOD	**-11,971,197**	**587,161**	**(12,558,358)**	

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STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
STATEMENT OF FINANCIAL PERFORMANCE FOR THE YEAR ENDED 30 JUNE 2019

ADJUSTMENTS TO APPROVED BUDGET

	2019 R (Original Budget)	2019 R (Adjustments)	2019 R (Final Budget)	Reasons for material adjustments
REVENUE BY SOURCE				
Non-exchange Revenue	**27,222,986**	**2,105,165**	**29,328,151**	
Transfers and Subsidies	27,222,986	2,105,165	29,328,151	The increase is attributed to funds rolled over from the previous year and for which conditions of funding were met hence revenue was recognised.
Exchange Revenue	**83,295,913**	**(14,789,595)**	**68,506,318**	
Interest Earned - external investments	2,500,000	-	2,500,000	Budget item was not adjusted.
Sales of Goods and Rendering of Services	80,795,913	(14,789,595)	66,006,318	Due to under-collection of revenue in the first half of the financial year, abattoir and farms budgeted revenue was adjusted downwards.
Gains	**50,000**	**60,000**	**110,000**	
Fair Value Adjustments of Biological Assets	50,000	20,000	70,000	We projected more births of livestock by the end of the financial year.
Profit on disposal of assets	-	40,000	40,000	During the year some assets were identified for disposal and we projected profit.
Total Revenue	**110,568,899**	**-12,624,430**	**97,944,469**	
Employee related costs	41,560,396	1,077,092	42,637,488	A new salary grading system was adopted and implemented during the year. This resulted in the upgrade of certain positions and salaries were adjusted. There was also a revision of the travel allowance policy whereby employees are now re-imbursed for business travel from the first kilometer and no longer after the first 500 kilometers travelled per month.
Board of directors related costs	1,760,000	(220,000)	1,540,000	Scheduling of meetings was done such that there as savings in costs.
Depreciation and Amortisation	1,495,300	3,228,270	4,723,570	There was an under-estimation of depreciation provision on the original budget and this was corrected during the adjustment stage.
Repairs and Maintenance	240,000	100,189	340,189	Budget was adjusted upwards in order to cater for building renovations necessitated by limited office space.
Finance Charges	60,000	(25,000)	35,000	Based on savings during the first half of the financial year, the budget was adjusted downwards.
Operational costs	64,062,384	(16,131,323)	47,931,061	The budget adjustment related mainly to livestock purchases for slaughter. Less than the originally projected number of livestock to be purchased and slaughtered at the abattoir was reduced. Furthermore, there was a reduction in allocation by the municipality for some of the special projects that are implemented by the entity.
Losses - Biological Assets	100,000	50,000	150,000	Actual losses of biological assets during the first half of the financial year were higher than original projections. Due to this the annual amount was increased.
Total Expenditure	**109,278,080**	**-11,920,772**	**97,357,308**	
NET SURPLUS / (DEFICIT) FOR THE PERIOD	**1,290,819**	**-703,658**	**587,161**	

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

COMPARISON OF ACTUAL FIGURES TO FINAL BUDGET

	2019 R (Actual)	2019 R (Final Budget)	2019 R (Variance)	Explanations for material variances
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Grants and public contributions	34,505,610	28,659,460	5,846,150	The entity was appointed by a local municipality to implement an agricultural project. This happened during the second half of the financial year when the adjusted budget had already been passed.
Sales of goods and services	16,370,736	50,332,283	(33,961,547)	There is under-collection of revenue across all trading enterprises. As far as water services is concerned there is an under-collection of revenue amounting to R6.5m due to prolonged resolution of invoicing and payment issues between the entity and the parent municipality. Lastly, budget amounting to R7.5m set aside for special projects that were to be implemented on behalf of the parent municipality was not received. Such special projects are revival of old business properties, regional television station and acquisition of RAFI implements. The latter project was implemented directly by the parent municipality.
Interest received	1,155,693	2,500,000	(1,344,307)	Lower than anticipated revenue collection levels and other funding for special projects that was not received contributed to the undercollection of interest revenue.
Payments				
Suppliers	(27,944,255)	(36,262,024)	8,317,769	The main contributor to the variance is livestock purchases for sale of meat at the abattoir. Although turaround plans were place they were not yet fully effective.
Employees and directors	(42,947,559)	(42,637,488)	(310,071)	There were two senior management resignations during the year and the vacancies were filled after year-end.
Finance charges	(40,571)	(35,000)	(5,571)	Variance is caused by interest charged on municipal services accounts which was not anticipated. Municipality did not deliver municipal accounts on time hence they were not paid on time.
Cash (utilised) / generated by operations	(18,900,347)	2,557,231	(21,457,578)	
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Property, Plant and Equipment	(7,956,482)	(10,914,055.00)	2,957,573	Due to cashflow constraints acquisition of assets that were not directly contributing to the turnaround programme of enterprises was suspended. In certain instances purchased assets were not delivered by year-end has no payments were made.
Proceeds on Disposal of Fixed Assets	702,431	85,000	617,431	We anticipated a minor disposal of assets for the year and a small amount of proceeds was projected. Following routine verification of assets more assets were identified to be redundant and they were disposed resulting in higher than projected proceeds.
Purchase of Biological assets	(1,112,402)	(210,000)	(902,402)	The budget was set aside to acquire breeding bulls. However, more biological assets were acquired for the exchange programme.
Proceeds on Disposal of Biological assets	2,668,856	-	2,668,856	This amount relates to the sale of livestock to customers. In the budget these proceeds were budgeted for under receipts from customers hence the variance.
Net Cash from Investing Activities	(5,697,597)	(11,039,055)	5,341,458	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(24,597,944)	(8,481,824)	(16,116,120)	
Cash and Cash Equivalents at the beginning of the year	30,880,253	30,880,253	-	
Cash and Cash Equivalents at the end of the year	6,282,309	22,398,429	(16,116,120)	
NET DECREASE IN CASH AND CASH EQUIVALENTS	(24,597,944)	(8,481,824)	(16,116,120)	

STATEMENT OF COMPARISON OF BUDGET AND ACTUAL AMOUNTS
CASH FLOW STATEMENT FOR THE YEAR ENDED 30 JUNE 2019

ADJUSTMENTS TO APPROVED BUDGET

	2019 R (Original Budget)	2019 R (Adjustments)	2019 R (Final Budget)	Reasons for material adjustments
CASH FLOW FROM OPERATING ACTIVITIES				
Receipts				
Transfers and Subsidies	27,222,986	1,436,474	28,659,460	Vat portion was added to some of the special projects making the amount receivable to be higher than the original budget.
Sales of goods and services	80,795,913	(30,463,630)	50,332,283	Due to under-collection of revenue in the first half of the financial year, abattoir and farms budgeted revenue collections were adjusted downwards.
Interest received	2,500,000	-	2,500,000	Budget item was not adjusted.
Payments		-		
Suppliers and Employees	(98,329,007)	19,429,495	(78,899,512)	The budget adjustment related mainly to livestock purchases for slaughter mainly due to unsatisfactory performance in the first half of the financial year. Furthermore, there was a reduction in allocation by the municipality for some of the special projects that are implemented by the entity.
Finance charges	(60,000)	25,000	(35,000)	Based on savings during the first half of the financial year, the budget was adjusted downwards.
Cash (utilised) / generated by operations	**12,129,892**	**(9,572,661)**	**2,557,231**	
CASH FLOWS FROM INVESTING ACTIVITIES				
Purchase of Property, Plant and Equipment	(9,753,000)	(1,161,055)	(10,914,055)	Budget was increase to accommodate payment for acquisition of assets whose procurement process started in the previous financial year but delivery took place in the 2018/2019 financial year. These payments were not in the original budget.
Purchase of Biological Assets	(210,000)	-	(210,000)	Budget was not adjusted.
Proceeds on Disposal of Fixed Assets	120,000	(35,000)	85,000	More assets were identified for disposal and a higher profit amount was projected.
Net Cash from Investing Activities	**(9,843,000)**	**(1,196,055)**	**(11,039,055)**	
CASH FLOWS FROM FINANCING ACTIVITIES	-	-	-	
NET DECREASE IN CASH AND CASH EQUIVALENTS	2,286,892	(10,768,716)	(8,481,824)	
Cash and Cash Equivalents at the beginning of the year	23,579,225	(10,768,716)	30,880,253	
Cash and Cash Equivalents at the end of the year	25,866,117		22,398,429	
NET DECREASE IN CASH AND CASH EQUIVALENTS	2,286,892		(8,481,824)	

1. ACCOUNTING PRINCIPLES AND POLICIES APPLIED IN THE ANNUAL FINANCIAL STATEMENTS

1.1. BASIS OF PREPARATION

The financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

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

Accounting policies for material transactions, events or conditions not covered by the GRAP reporting framework have been developed in accordance with GRAP 3.

A summary of the significant accounting policies, which have been consistently applied except where an exemption has been granted, are disclosed below.

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated otherwise. The details of any changes in accounting policies are explained in the relevant notes to the financial statements.

1.2. PRESENTATION CURRENCY

Amounts reflected in the financial statements are in South African Rand and at actual values. Financial values are rounded to the nearest one Rand.

1.3. GOING CONCERN ASSUMPTION

These financial statements have been prepared on a going concern basis which assumes that Entity will continue in operation into the foreseeable future.

1.4. COMPARATIVE INFORMATION

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatements of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

1.5. AMENDED DISCLOSURE POLICY

Amendments to accounting policies are reported as and when deemed necessary based on the relevance of any such amendment to the format and presentation of the financial statements.

1.6. MATERIALITY

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decision or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatements judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor. Materiality is determined as any amount that is higher than 1% of total expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

1.7. PRESENTATION OF BUDGET INFORMATION

The presentation of budget information is prepared in accordance with GRAP 24 and guidelines issued by National Treasury. The comparison of budget and actual amounts are disclosed as a separate additional financial statement, namely Statement of comparison of budget and actual amounts.

Budget information is presented on the accrual basis and is based on the same period as the actual amounts, i.e. 1 July 2018 to 30 June 2019. The budget information is therefore on a comparable basis to the actual amounts.

The comparable information includes the following:

- the approved and final budget amounts;
- actual amounts and final budget amounts;

Explanations for differences between the approved and final budget are included in the Statement of Comparison of Budget and Actual Amounts.

Explanations for material differences between the final budget amounts and actual amounts are included the Statement of Comparison of Budget and Actual Amounts.

1.8. LEASES

1.8.1. Entity as Lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Entity. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) 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 as 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 Entity 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 and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Entity recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

1.9. UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS

Conditional government grants are subject to specific conditions. This section equally applies to grant allocation from the parent municipality to the extent that it is allocated to specific projects. If specific conditions are not met or unspent balances cannot be allocated to other projects, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from the parent municipality or other organs of state.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this liability:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Entity until it is utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor. If it is the Entity's interest, it is recognised as interest earned in the Statement of Financial Performance.

1.10. PROVISIONS

Provisions are recognised when the Entity has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resource embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate of future outflows of resources. Where the effect is material, non-current provisions are discounted to their present value using a discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability.
The Entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where an inflow of economic benefits or service potential is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.
The amount recognised as a provision is the best estimate of the expenditure required to settle the present obligation at the reporting date.

If it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation, the provision is de-recognised.

1.11. EMPLOYEE BENEFITS

1.11.1. Provision for Staff Leave

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

Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term or at a time determined and approved by the Board of Directors.

1.11.2. Staff Bonuses Accrued

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

1.11.3. Pension and retirement fund obligations

The Entity provides retirement benefits for its employees on a defined contribution plan. Defined contribution plans are post-employment benefit plans under which the 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. The contributions to fund obligations for the payment of retirement benefits are recognised in the Statement of Financial Performance in the year they become payable.

1.12. PROPERTY, PLANT AND EQUIPMENT

1.12.1. Initial Recognition

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 year. The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the Entity, and the cost or fair value of the item can be measured reliably. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded at cost less any estimated residual value at the end of its lifespan. 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 the Entity. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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.

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

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 assets acquired is initially measured at fair value (the cost). If the acquired item's fair value is not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the Entity expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

1.12.2. Subsequent Measurement – Cost Model

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

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

1.12.3. Depreciation and Impairment

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual depreciation rates are based on the following estimated useful lives:

	Years
<u>Buildings</u>	
Buildings	30
<u>Other assets</u>	
Computer hardware	5
Office equipment	5
Furniture and fittings	6
Motor vehicles	5

Tractor and other equipment	6
Network hardware	5
Plant and equipment	6

Finance lease assets

Computer Equipment	5

Property, plant and equipment are reviewed at each reporting date for any indication of material impairment. If any such indication exists, the asset's recoverable amount is estimated. The impairment recognised in the Statement of Financial Performance is the excess of the carrying value over the recoverable amount.

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

1.12.4. De-recognition

Items of property, plant and equipment are derecognised when the asset is disposed 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 item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.13. INTANGIBLE ASSETS

1.13.1. Initial Recognition

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset meets the identifiability criterion in the definition of an intangible asset when it:

- is separable, i.e. is capable of being separated or divided from the Entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable asset or liability, regardless of whether the Entity intends to do so; or

- arises from binding arrangements from contracts, regardless of whether those rights are transferable or separable from the Entity or from other rights and obligations.

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

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

- the Entity intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the Entity has the resources to complete the project;
- it is probable that the Entity will receive future economic benefits or service potential; and
- the Entity can measure reliably the expenditure attributable to the intangible asset during its development.

Intangible assets are initially recognised at cost.

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

1.13.2. Subsequent Measurement – Cost Model

Intangible assets are subsequently carried at cost less accumulated amortisation and any accumulated impairments losses. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

1.13.3. Amortisation and Impairment

Amortisation is charged so as to write off the cost or valuation of intangible assets over its estimated useful lives using the straight line method. Amortisation of an asset begins when it is available for use, i.e. when it is in the condition necessary for it to be capable of operating in the manner intended by management. Components of assets that are significant in relation to the whole asset and that have different useful lives are amortised separately. The estimated useful lives, residual values and amortisation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis. The annual amortisation rates are based on the following estimated useful lives:

Intangible Assets	**Years**
Computer Software	5

1.13.4. De-recognition

Intangible assets are derecognised when the asset is disposed 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 sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

1.14. BIOLOGICAL ASSETS

1.14.1. Initial Recognition

A biological asset or agricultural produce is recognised when, and only when:

- the Entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the Entity;
- livestock is expected to be kept for a period extending beyond twelve months for breeding purposes;
- and the fair value or cost of the asset can be measured reliably.

Biological assets are initially measured at their fair value less cost to sell.

1.14.2. Subsequent Measurement

Biological assets are measured at their fair value less cost to sell.

The fair value of cattle is determined based on market prices of livestock of similar age, breed, and genetic merit in the local industry.

A gain or loss arising on initial recognition of biological assets at fair value less cost to sell is recognised in the Statement of Financial Performance for the period in which it arises.

1.15. IMPAIRMENT OF NON-FINANCIAL ASSETS

1.15.1. Cash-generating assets

Cash-generating assets are assets held with the primary objective of generating a commercial return.

The Entity assesses at each reporting date whether there is an indication that an asset may be materially impaired. If any indication exists, or when annual impairment testing for an asset is required, the Entity estimates the asset's recoverable amount.

In assessing whether there is any indication that an asset may be impaired, the Entity considers the following indications:

(a) External sources of information
- During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.
- Significant changes with an adverse effect on the Entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the Entity operates or in the market to which an asset is dedicated.
- Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

(b) Internal sources of information
- Evidence is available of obsolescence or physical damage of an asset.
- Significant changes with an adverse effect on the Entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.
- Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than expected.

The re-designation of assets from a cash-generating asset to a non-cash generating asset or from a non-cash-generating asset to a cash-generating asset shall only occur when there is clear evidence that such a re-designation is appropriate. A re-designation, by itself, does not necessarily trigger an impairment test or a reversal of an impairment loss. Instead, the indication for an impairment test or a reversal of an impairment loss arises from, as a minimum, the indications listed above.

An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, an appropriate valuation model is used. Impairment losses are recognised in the Statement of Financial Performance in those expense categories consistent with the function of the impaired asset.

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

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Entity estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Financial Performance.

1.15.2. Non-cash-generating assets

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

The Entity assesses at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Entity estimates the asset's recoverable service amount.

In assessing whether there is any indication that an asset may be impaired, the Entity considers the following indications:

(a) External sources of information
- Cessation, or near cessation, of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect on the Entity have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Entity operates.

(b) Internal sources of information
- Evidence is available of physical damage of an asset.
- Significant long-term changes with an adverse effect on the Entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be, significantly worse than expected.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss is recognised in the Statement of Financial Performance.

The value in use of a non-cash-generating asset is the present value of the asset's remaining service potential. The present value of the remaining service potential of the asset is determined using any one of the following approaches, depending on the nature of the asset in question:

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

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

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

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.

An impairment loss is recognised immediately in surplus or deficit, unless the asset is carried at a revalued amount in accordance with another Standard of GRAP. Any impairment loss of a revalued asset shall be treated as a revaluation decrease in accordance with that Standard of GRAP.

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

An impairment loss recognised in prior periods for an asset is reversed if there has been a change in the estimates used to determine the asset's recoverable service amount since the last impairment loss was recognised. If this is the case, the carrying amount of the asset is increased to its recoverable service amount. 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. Such a reversal of an impairment loss is recognised in the Statement of Financial Performance.

1.16. INVENTORIES

1.16.1. Initial Recognition

Inventories comprise of current assets held for sale, consumption or distribution during the ordinary course of business. Inventories are recognised as an asset if, and only if, it is probable that future economic benefits or service potential associated with the item will flow to the Entity, and the cost of the inventories can be measured reliably. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus non-recoverable taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.
Livestock that is acquired or identified for sale within a period of twelve months is classified as inventory.

Where inventory is acquired by the Entity for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

1.16.2. Subsequent Measurement

Inventories, consisting of consumable stores, raw materials, work-in-progress and finished goods, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

1.17. FINANCIAL INSTRUMENTS

Financial instruments recognised on the Statement of Financial Position include receivables (both from exchange transactions and non-exchange transactions), cash and cash equivalents, annuity loans and payables (both form exchange and non-exchange transactions) and non-current investments. The future utilization of Unspent Conditional Grants is evaluated in order to determine whether it is treated as financial instruments.

1.17.1. Initial Recognition

Financial instruments are initially recognised when the Entity becomes a party to the contractual provisions of the instrument at fair value plus, in the case of a financial asset or financial liability not at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability. If finance charges in respect of financial assets and financial liabilities are significantly different from similar charges usually obtained in an open market transaction, adjusted for the specific risks of the Entity, such differences are immediately recognised in the period it occurs, and the unamortised portion adjusted over the period of the loan transactions.

1.17.2. Subsequent Measurement

Financial assets are categorised according to their nature as either financial assets at fair value, financial assets at amortised cost or financial assets at cost. Financial liabilities are categorised as either at fair value or financial liabilities carried at amortised cost. The subsequent measurement of financial assets and liabilities depends on this categorisation.

1.17.2.1. *Receivables*

Receivables are classified as financial assets at amortised cost, and are subsequently measured at amortised cost using the effective interest rate method.

For amounts due from debtors carried at amortised cost, the Entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. Objective evidence of impairment includes significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation and default or delinquency in payments (more than 90 days overdue). If the Entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the Statement of Financial Performance. Interest income continues to be accrued on the reduced carrying amount based on the original effective interest rate of the asset. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Entity. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is recognised in the Statement of Financial Performance.

The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate, if material. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate.

1.17.2.2. *Payables and Annuity Loans*

Financial liabilities consist of payables and annuity loans. They are categorised as financial liabilities held at amortised cost, and are initially recognised at fair value and subsequently measured at amortised cost using an effective interest rate, which is the initial carrying amount, less repayments, plus interest.

1.17.2.3. *Cash and Cash Equivalents*

Cash includes cash on hand (including petty cash) and cash with banks. Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, highly liquid deposits and net of bank overdrafts. The Entity categorises cash and cash equivalents as financial assets carried at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities carried at amortised cost.

1.17.3. De-recognition of Financial Instruments

1.17.3.1. Financial Assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired; or
- the Entity has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either (a) the Entity has transferred substantially all the risks and rewards of the asset, or (b) the Entity has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Entity has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the old asset is derecognised and a new asset is recognised to the extent of the Entity's continuing involvement in the asset.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Entity could be required to repay.

When continuing involvement takes the form of a written and/or purchased option (including a cash settled option or similar provision) on the transferred asset, the extent of the Entity's continuing involvement is the amount of the transferred asset that the Entity may repurchase, except that in the case of a written put option (including a cash settled option or similar provision) on an asset measured at fair value, the extent of the Entity's continuing involvement is limited to the lower of the fair value of the transferred asset and the option exercise price.

1.17.3.2. Financial Liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the Statement of Financial Performance.

1.17.4. Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

1.18. REVENUE

1.18.1. Revenue from Non-Exchange Transactions

The Entity receives a major part of its income in the form of grants (referred to as government grants) from the parent municipality, the O.R. Tambo District Municipality.

Revenue from non-exchange transactions refers to transactions where the Entity received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no obligation to repay the amount.

Grants, transfers and donations received or receivable are recognised when the resources that have been transferred, meet the criteria for recognition as an asset. A corresponding liability is recognised to the extent that the grant, transfer or donation is conditional. The liability is transferred to revenue as and when the conditions attached to the grant are met. Grants without any conditions attached are recognised as revenue when the asset is recognised.

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the Entity. Where public contributions have been received, but the Entity has not met the related conditions, it is recognised as an unspent public contribution (liability).

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

Contributed property, plant and equipment is recognised when such items of property, plant and equipment qualifies for recognition and become available for use by the Entity.

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No. 56 of 2003) and is recognised when the recovery thereof from the responsible officials is virtually certain.

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

When, as a result of a non-exchange transaction, a Entity 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 present 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 will be recognised as revenue.

1.18.2. Revenue from Exchange Transactions

Revenue from exchange transactions refers to revenue that accrued to the Entity directly in return for services rendered or goods sold, the value of which approximates the consideration received or receivable.

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

- The Entity has transferred to the purchaser the significant risks and rewards of ownership of the goods.
- The Entity 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 Entity.
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

At the time of initial recognition the full amount of revenue is recognised where the Entity has an enforceable legal obligation to collect, unless the individual collectability is considered to be improbable. If the Entity does not successfully enforce its obligation to collect the revenue this would be considered a subsequent event.

Interest revenue is recognised using the effective interest rate method.

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

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

The amount of revenue arising on a transaction is usually determined by agreement between the Entity and the purchaser or user of the asset or service. It is measured at the fair value of the consideration received or receivable taking into account the amount of any trade discounts and volume rebates allowed by the Entity.

In most cases, the consideration is in the form of cash or cash equivalents and the amount of revenue is the amount of cash or cash equivalents received or receivable. However, when the inflow of cash or cash equivalents is deferred, the fair value of the consideration may be less than the nominal amount of cash received or receivable. When the arrangement effectively constitutes a financing transaction, the fair value of the consideration is determined by discounting all future receipts using an imputed rate of interest. The imputed rate of interest is the more clearly determinable of either:

- The prevailing rate for a similar instrument of an issuer with a similar credit rating;

- A rate of interest that discounts the nominal amount of the instrument to the current cash sales price of the goods or services.

The difference between the fair value and the nominal amount of the consideration is recognised as interest revenue.

When goods or services are exchanged or swapped for goods or services which are of a similar nature and value, the exchange is not regarded as a transaction that generates revenue. When goods are sold or services are rendered in exchange for dissimilar goods or services, the exchange is regarded as a transaction that generates revenue. The revenue is measured at the fair value of the goods or services received, adjusted by the amount of any cash or cash equivalents transferred. When the fair value of the goods or services received cannot be measured reliably, the revenue is measured at the fair value of the goods or services given up, adjusted by the amount of any cash or cash equivalents transferred.

1.19. RELATED PARTIES

The Entity resolved to early adopt the disclosure requirements as per GRAP 20 – "Related Party Disclosures".

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.

The following are regarded as related parties of the Entity:

(a) A person or a close member of that person's family is related to the Entity if that person:
   - has control or joint control over the Entity.
   - has significant influence over the Municipalities. Significant influence is the power to participate in the financial and operating policy decisions of the Entity.
   - is a member of the management of the Entity or its controlling entity.

(b) An entity is related to the Entity if any of the following conditions apply:
   - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others).
   - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member).
   - both entities are joint ventures of the same third party.

- one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- the entity is a post-employment benefit plan for the benefit of employees of either the Entity or an entity related to the Entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity.
- the entity is controlled or jointly controlled by a person identified in (a).
- a person identified in (a) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the Entity. A person is considered to be a close member of the family of another person if they:

(a) are married or live together in a relationship similar to a marriage; or
(b) are separated by no more than two degrees of natural or legal consanguinity or affinity.

Management (formerly known as "Key Management") includes all persons having the authority and responsibility for planning, directing and controlling the activities of the Entity, including:

(a) all members of the governing body of the Entity;
(b) a member of the governing body of an economic entity who has the authority and responsibility for planning, directing and controlling the activities of the Entity;
(c) any key advisors of a member, or sub-committees, of the governing body who has the authority and responsibility for planning, directing and controlling the activities of the Entity; and
(d) the senior management team of the Entity, including the chief executive officer or permanent head of the Entity, unless already included in (a).

Management personnel include:

(a) All directors or members of the governing body of the Entity, being the Chairman of the Board and all other directors.

(b) Other persons having the authority and responsibility for planning, directing and controlling the activities of the reporting Entity being the Chief Executive Officer, Chief Financial Officer an all other managers reporting directly to the Chief Executive Officer

Remuneration of management includes remuneration derived for services provided to the Entity in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Entity for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Entity.

The Entity operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

As a municipal entity, the Entity is fully controlled by the parent municipality the O.R. Tambo District Municipality. As a development agency of the parent municipality, the Entity is inherently involved in a number of economic development operations, developmental commercial operations and community based organisations.

1.20. UNAUTHORISED EXPENDITURE

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, Entity or organ of state and expenditure in a 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 (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.21. IRREGULAR EXPENDITURE

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No. 56 of 2003), the Municipal Systems Act (Act No. 32 of 2000), the Public Office Bearers Act, and (Act. No. 20 of 1998) or is in contravention of the Entity's Supply Chain Management Policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.22. FRUITLESS AND WASTEFUL EXPENDITURE

Fruitless and wasteful expenditure is expenditure that was made in vain and could have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure (measured at actual cost incurred) in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

1.23. CONTINGENT LIABILITIES AND CONTINGENT ASSETS

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Entity. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measures with sufficient reliability.

The Entity does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.

1.24. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

In the process of applying the Entity's accounting policy, management makes the following significant accounting judgements, estimates and assumptions, which have the most significant effect on the amounts recognised in the financial statements:

1.24.1. Impairment of Receivables

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

1.24.2. Property, Plant and Equipment

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets.

1.24.3. Intangible Assets

The useful lives of intangible assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate.

Management referred to the following when making assumptions regarding useful lives of intangible assets:

- Reference was made to intangibles used within the Entity to determine the useful life of the assets.

1.24.4. Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

1.24.5. Revenue Recognition

Accounting Policy on Revenue from Non-Exchange Transactions and Accounting Policy on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Entity.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions.). Specifically, whether the Entity, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Entity is satisfied that recognition of the revenue in the current year is appropriate.

1.24.6. Provision for Staff leave

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave, leave gratuity is paid or when employment is terminated.

1.25. TAXES – VALUE ADDED TAX

Revenue, expenses and assets are recognised net of the amounts of value added tax. The net amount of Value Added Tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position.

1.26. TAXES – INCOME TAX

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss.
Current tax is the expected tax payable or receivable on the taxable income or loss for the period, using applicable tax rates at the reporting date.

1.27. CAPITAL COMMITMENTS

Capital commitments disclosed in the financial statements represents the contractual balance committed to capital projects on reporting date that will be incurred in the period subsequent to the specific reporting date.

1.28. EVENTS AFTER REPORTING DATE

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

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

If non-adjusting events after the reporting date are material, the Entity discloses the nature and an estimate of the financial effect.

	2019 R	2018 R
2 CASH AND CASH EQUIVALENTS		
Call Investments Deposits	4,600,722	28,165,320
Bank Accounts	1,668,332	2,706,365
Petty Cash Balances	13,255	8,567
Total Cash and Cash Equivalents	**6,282,309**	**30,880,252**

Cash and cash equivalents comprise cash held and short term deposits. The carrying amount of these assets approximates their fair value.

The entity has the following bank accounts:

Current Accounts

	2019 R	2018 R
FNB - Account Number 62166804742 (Primary Bank Account)	1,175,914	2,644,168
FNB - Account Number 6216680472 (Salaries Account)	20,688	11,074
FNB Call Account 62766535622	275,038	31,121
Trading Account 62254987351	(0.00)	5,462
FNB Call Account 62771259671	196,693	-
Kei Fresh current account 62192051698	(0)	14,540
	1,668,333	2,706,365
FNB - Account Number 6216680472 (Primary Bank Account)		
Cash book balance at beginning of year	2,644,168	5,185,305
Cash book balance at end of year	1,175,914	2,644,168
Bank statement balance at beginning of year	2,644,168	5,157,522
Bank statement balance at end of year	1,175,914	2,644,168
FNB - Account Number 6216680472 (Salaries Account)		
Cash book balance at beginning of year	11,074	12,220
Cash book balance at end of year	20,688	11,074
Bank statement balance at beginning of year	11,074	12,220
Bank statement balance at end of year	20,688	11,074
Trading Account 62254987351		
Cash book balance at beginning of year	5,462	-
Cash book balance at end of year	-	5,462
Bank statement balance at beginning of year	(2,326)	-
Bank statement balance at end of year	-	(2,326)
Kei Fresh current account 62192051698		
Cash book balance at beginning of year	14,540	-
Cash book balance at end of year	-	14,540
Bank statement balance at beginning of year	14,540	-
Bank statement balance at end of year	-	14,540
FNB Call Account 62771259671		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	196,693	-
Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	196,693	-
FNB Call Account 62766535622		
Cash book balance at beginning of year	31,121	-
Cash book balance at end of year	275,038	31,121
Bank statement balance at beginning of year	31,121	-
Bank statement balance at end of year	275,038	31,121
FNB Call Account 62773058849		
Cash book balance at beginning of year	-	-
Cash book balance at end of year	84,345	-
Bank statement balance at beginning of year	31,121	-
Bank statement balance at end of year	275,038	31,121

Call Investment Deposits

Call investment deposits consist out of the following accounts:

	R	R
FNB Account number 62181670540 (Ntinga)	2,950,538	1,201,216
FNB Account number 621859015281 (Ikwezi Farm)	-	758,507
FNB Account number 62185096122 (Umzimkant Read Meat Abbatoir)	934,883	7,001,414
FNB Call 62508942407	87,586	82,388
FNB Call 62578074149	541,960	8,265,428
FNB Call 74639066478	-	5,703,987
FNB Call Account 62207949564	-	900
FNB Call Account 62383406082	-	149,142
FNB Call Account 62308466045	-	2,340
FNB Call Account 62785410293	1,410	-
FNB Call Account 62773058849	84,345	-
Standard bank call account 39869431103	-	5,000,000
	4,600,722	**28,165,321**

3 **RECEIVABLES FROM EXCHANGE TRANSACTIONS**

3.1	Credit sales of goods and rentals	11,560,158	2,189,802
	Less: Allowance for Doubtful Debts	(339,752)	(537,888)
	Total Net Receivables from Exchange Transactions	**11,220,406**	**1,651,914**

Projects amount include balances that are owed by Abattoir and Kei Fresh Produce Market customers or tenants. Consumer debtors are required to settle issued invoices within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

Ageing of Receivables from Exchange Transactions:

(Projects): Ageing

Current (0 - 30 days)	8,938,335	1,710,663
31 - 60 Days	70,885	(74,147)
61 - 90 Days	11,611	15,397
+ 90 Days	2,539,327	537,889
Total	**11,560,158**	**2,189,802**

3.2 **Reconciliation of Provision for Bad Debts**

Balance at beginning of year	537,888	86,805
Contribution to provision - KFPM	-	63,501
Receivables balance correction	(142,452)	-
(Reversals)/Contribution to provision	(55,684)	387,582
Restated balance	**339,752**	**537,888**

The Provision for impairment could be allocated between the different classes of receivables as follows:

Projects	339,752	537,888
The fair value of trade receivables approximates their carrying amounts.	**339,752**	**537,888**

Provision is made up of balances that are older than 90 days. However, amounts that are older than 90 days but paid after year end were excluded from the provision amount.

4 **INVENTORY**

Opening balance	**982,361**	**199,262**
Consumable stores	97,544	114,751
Livestock	872,050	-
Merchandise (Meat and Milk)	12,767	84,511
Additions	**1,398,591**	**8,558,395**
Consumable stores	208,909	411,360
Livestock	933,364	3,082,648
Merchandise (Meat and Milk)	256,318	5,064,387
Issued (Expensed)	**(2,210,686)**	**(7,775,296)**
Consumable stores	(223,362)	(428,567)
Livestock	(1,805,414)	(2,210,598)
Merchandise (Meat and Milk)	(181,910)	(5,136,131)
Closing Balance		
Consumable stores	83,091	97,544
Livestock	-	872,050
Merchandise (Meat and Milk)	87,175	12,767
Total Inventory	170,266	982,361

No inventory assets were pledged as security for liabilities.

5 **RECEIVABLES FROM NON-EXCHANGE TRANSACTIONS**

	2019 R	2018 R
Other Receivables		
Advance payments and sundry debtors	21,811	746,086
Prepayments - Deposits	192,597	192,597
Sub-total	**214,408**	**938,683**
Less: Allowance for Doubtful Debts	(27,959)	(20,735)
Net - Other Receivables	**186,450**	**917,948**
O.R. Tambo D.M. Grants and Receipts	6,128	6,128
Total Net Receivables from Non-Exchange Transactions	**192,578**	**924,076**

Reconciliation of Provision for Bad Debts

Balance at beginning of year	20,735	50,175
(Reversal of Provision) / Contribution to provision	7,224	(29,440)
Balance at end of year	**27,959**	**20,735**

6 **TAXES**

6.1 **VAT PAYABLE**	(2,654,559)	(588,611)
	(2,654,559)	**(588,611)**
6.2 **VAT RECEIVABLE**	-	-
NET VAT RECEIVABLE/(PAYABLE)	**(2,654,559)**	**(588,611)**

VAT is receivable/payable on the payment basis.

7 **INCOME TAX**

Taxable loss	(19,118,302)	(6,665,809)
Income tax @ 28%	5,353,124	1,866,426

The Entity realised taxable loss for the year and has created a deferred tax asset as follows:-

Opening balance	1,866,427	-
Current income tax	5,353,124	1,866,427
Deferred tax asset	7 219 552	1 866 427

With effect from 01 July 2017 the Entity started to operate as a State Owned Company and is in compliance with the South African Income Tax Act 58 of 1962.

The deferred tax amount relates to unused tax credits. It is recognised to the extent that there will be future taxable profits in excess of profits arising from the reversal of existing taxable temporary differences.

Reconciliation between tax expense (income) and accounting profit:-

Accounting (Loss) / Profit	(11,971,197)	54,568,585
Tax effect of transactions that are exempt or not deductible in determining taxable profit:-	(264,438)	(55,233,645)
- Adjustments to Biological Assets	(4,013,157)	(4,285,693)
- Donations recieved	(10,781,346)	(62,258,495)
- Decrease in provision for doutful debts	(41,763)	(22,080)
- Discount received	(1,412)	-
- Gains on disposal of Property, Plant and Equipment	(42,657)	(60,103)
- Staff bonuses	1,846,315	1,512,553
- Staff Leave	790,069	732,001
- Debt Impairment	-	290,687
- Depreciation and amortisation	4,237,152	4,016,134
- Impairment of Biological Assets	-	4,530,506
- Fair Value Adjustments	454,650	310,844
- Scrapped assets	7,287,711	-
Deductible temporary differences:-	(6,882,666)	(6,000,748)
- Staff bonuses paid	1,790,028	1,429,903
- Staff leave paid	145,905	1,624,433
- Assets wear and tear	4,946,732	2,946,412
Assessed Loss	(19,118,302)	(6,665,809)

Tax rate reconciliation

Standard Income Tax Rate	28%
Adjusted as follows:-	
- Disallowed transactions	-2%
- Temporary differences	-57%
Average effective tax rate	-32%

8 **PROPERTY, PLANT AND EQUIPMENT**

Carrying amounts	61,518,433	54,931,718

See appendix A

There are no assets pledged as security.

The effective date of the assessments and revaluation was 30 June 2018. Valuations were performed by independent professional valuer, Mzizi 4291 Properties CC (Reg.no. 2010/072405/23), a registered valuer in terms of Section 20(2) of the Property Valuers Profession Act (47 of 2000).

Orchard trees in the form of apple trees and apples with a carrying amount of R7 287 711 reached their productive life span during the 2018/2019 financial year. Consequently, they have been derecognised as an item of Property, Plant and Equipment. An equivalent amount has been recognised as an expense under operational costs in note 25.

9 **INTANGIBLE ASSETS**

Computer Software

Net Carrying amount at 1 July	**644,144**	**814,289**
Cost	1,488,036	1,251,537
Accumulated Amortisation	(587,445)	(417,300)
Transfers from KFPM - Accumulated Amortisation	(236,499)	-
Accumulated Impairment	(19,948)	(19,948)
Additions	315,580	-
Transfers from KFPM - Cost	-	236,499
Amortisation	(178,476)	(170,145)
Net Carrying amount at 30 June	**781,248**	**644,144**
Cost	1,803,616	1,488,036
Accumulated Amortisation	(765,921)	(587,445)
Transfers from KFPM - Accumulated Amortisation	(236,499)	(236,499)
Accumulated Impairment	(19 948)	(19 948)

The following material intangible assets are included in the carrying value above

	Carrying Value	
	2019	2018
Description	R	R
Computer software	781,248	644,144

No intangible asset were assessed having an indefinite useful life.

There are no internally generated intangible assets at reporting date.

There are no intangible assets pledged as security for liabilities

10 **BIOLOGICAL ASSETS** (See appendix B

Carrying amounts	**13,234,502**	**11,232,450**

No title or other restrictions are placed on biological assets.

No biological assets were pledged as security for liabilities.

There are no commitments for the acquisition of biological assets.

Biological assets are located at Adam Kok Farms and Ikwezi Dairy Farm. The primary activities revolving around biological assets are livestock breeding, heifer exchange and milk production.

Due to the unwillingness of insurance companies to carry the risk and potential losses relating to biological assets, the financial risk is managed as follows:

- Regular inspection and maintenance of boundary fences to manage movement of biological assets.
- Regular monitoring and reporting of quantities by Entity staff.
- A contract is entered into with a Veterinarian
- Livestock is regularly vaccinated.

The effective date of the assessments and valuation was 30 June 2018. Valuations were performed by an independent professional veterinarian, Dr G.G. Bauti, a registered veterinarian in terms of Veterinary and Para-Veterinary Professions Act No. 19 of 1982.

11 **PAYABLES FROM EXCHANGE TRANSACTIONS**

Trade Payables	1,173,298	1,126,714
Other accruals	3,256,065	2,609,260
Annual bonus	928,281	871,994
Sundry Creditors	2,327,784	1,737,266
Salary deductions	617,716	894,990
O.R. Tambo District Municipality	-	526,832
	5,047,079	**5,157,796**

Payables are being recognised net of any discounts.

Payables are being paid within 30 days as prescribed by the MFMA. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other payables on initial recognition is not deemed necessary

The carrying value of trade and other payables approximates its fair value.

All payables are unsecured.

12 **PAYABLES FROM NON-EXCHANGE TRANSACTIONS**

Sustainable Villages	SURUDEC - Baziya Sustainable Village Project	446,974	446,973
Total Payables from non-exchange transactions		**446,974**	**446,973**

This balance is payable to the European Commission. It originates from expenditure incurred by the Entity which the Commission declared as ineligible. The Entity was advised to wait for a directive before making the payment.

13 **UNSPENT CONDITIONAL GOVERNMENT GRANTS AND RECEIPTS**

Unspent Grants	3,290,842	1,766,208
Provincial and National Government Grants	-	-
District Municipality	3,026,046	1,605,951
Other Grant Providers	264,796	160,257
Total Conditional Grants and Receipts	**3,290,842**	**1,766,208**

Unspent grants can mainly be attributed to projects that are work in progress on the relevant financial year-ends. See appendix "B" for reconciliation of grants from other spheres of government. The entity complied with the conditions attached to all grants received to the extent of revenue recognised. No grants were withheld.

	2019	**2018**
	R	**R**

14 **CURRENT EMPLOYEE BENEFITS**

Provision for Staff Leave	3,788,397	3,144,234
Total Current Employee Benefits	**3,788,397**	**3,144,234**

The movement in current employee benefits are reconciled as follows:

Provision for Staff Leave

Balance at beginning of year	3,144,233	3,547,854
Transfer from KFPM		488,811
Current year contribution	790,070	732,001
Expenditure incurred	(145,905)	(1,624,433)
Balance at end of year	3,788,398	3,144,233

Staff leave accrued to employees according to collective agreement. Provision is made for the full cost of accrued leave at reporting date but limited to 35 leave days. This provision will be realised as employees take leave, when employment is terminated or any circumstance approved by the board of directors.

15 OPERATING LEASE ARRANGEMENTS

Future minimum lease payments of the operating lease

Up to 1 year	126,000	126,000
1 to 5 Years	504,000	504,000
More than 5 years	73,500	199,500
Total Operating Lease Payments	703,500	829,500

The operating lease consist of an agreement entered into with Missionary Sisters of the Precious Blood over a period of 12 years. The entity leases a Dairy Farm. The latest agreement was entered into on 1 January 2013 and expires on 29 January 2025. The initial rental amount in the contract is R 10,500.00 (Including VAT) per month.

The entity has not engage in any sub-lease arrangements.

The entity did not pay any contingent rent during the year.

16 TRANSFERS AND SUBSIDIES

O.R. Tambo District Municipality	27,053,509	37,455,415
O.R. Tambo District Municipality - Conditional	5,166,281	-
Other grants	2,285,820	506,577
Total income	34,505,610	37,961,992

Total Grants

Opening balance	1,766,208	6,442,340
Grants received - O.R. Tambo District Municipality	33,853,508	32,821,584
Grants received - Other	2,527,503	508,434
Less: Amount transferred to revenue	-	(44,157)
Unconditional Grants utilised	(27,053,508)	(37,455,415)
Conditions met: O. R. Tambo District Municipality	(5,379,903)	-
Conditions met: Other grants	(2,422,970)	(506,577)
Conditions still to be met/(Grant expenditure to be recovered)	**3,290,838**	**1,766,208**

Disclosed as follows:

Unspent Conditional Government Grants and Receipts	3,290,842	1,766,208
	3,290,842	**1,766,208**

17 SALE OF GOODS AND RENDERING OF SERVICES

Consulting	10,479,300	1,858,745
SETA Levies, Tender Fees and sale of agricultural produce	1,089,881	104,417
Ikwezi Dairy Farm	10,456	270,798
Umzikantu Red Meat Abattoir	7,848,902	6,070,229
Kei Fresh Produce Market	963,069	1,371,926
Adam Kok Farms	4,759,027	5,082,140
Decrease in provision for doubtful debts	55,684	29,440
Discount received	1,412	-
Total	**25,207,731**	**14,787,695**

18 Losses Biological Assets

18.1 Gains

Fair Value adjustments - Price changes	3,918,557	4,191,093
Fair Value adjustments - Physical changes	94,600	94,600
	4,013,157	**4,285,693**

18.2 Fair value losses

Fair Value adjustments - Price changes	-	-
Fair Value adjustments - Physical changes - Livestock	454,650	310,844
	454,650	**310,844**

These biological assets adjustments relate to births and deaths of livestock.

19 EMPLOYEE RELATED COSTS

	2019 R	2018 R
Bonus	1,846,315	1,512,553
Leave Reserve Fund	790,069	732,001
Other	344,752	215,789
Salaries and Wages	34,339,978	28,854,090
Travel, motor car, telephone, assistance and other allowances	4,215,153	2,959,877
Total Employee Related Costs	**41,536,267**	**34,274,310**

CONTRIBUTIONS TO PENSION AND PROVIDENT FUNDS

The Entity contributes to the Defined Contribution Provident Fund. The benefit is subject to the Pension Fund Act, 1956.

Contributions for the year included in employee cost	**3,745,446**	**2,709,874**

REMUNERATION OF KEY MANAGEMENT PERSONNEL

Remuneration of the Chief Executive Officer		
Basic Salary	1,101,664	1,204,636
Travel Allowance	167,772	120,847
Cellphone Allowance	45,558	47,527
Annual Bonus	81,768	88,955
Contributions to UIFand Provident Fund.	138,708	147,785
Leave Gratuity	-	273,758
Total	**1,535,470**	**1,883,509**

Remuneration of the Chief Financial Officer		
Basic Salary	1,106,680	941,906
Travel Allowance	135,582	112,692
Cellphone Allowance	38,737	37,029
Annual Bonus	72,935	71,301
Contributions to UIFand Provident Fund.	117,449	110,134
Total	**1,471,382**	**1,273,061**

Remuneration of the Senior Manager Water Services		
Basic Salary	911,815	755,632
Travel Allowance	113,399	99,506
Cellphone Allowance	26,642	16,204
Annual Bonus	31,162	34,195
Contributions to UIFand Provident Fund.	120,321	74,015
Total	**1,203,338**	**979,552**

Remuneration of the Corporate Service Manager		
Basic Salary	1,016,079	792,920
Travel Allowance	246,911	110,797
Cellphone Allowance	-	10,069
Annual Bonus	54,983	28,099
Contributions to UIFand Provident Fund.	130,212	69,598
Total	**1,448,185**	**1,011,483**

Remuneration of the Senior Manager Trading Enterprises		
Basic Salary	827,189	477,686
Travel Allowance	96,071	58,472
Cellphone Allowance	9,206	18,809
Annual Bonus	35,361	38,210
Contributions to UIFand Provident Fund.	94,137	41,533
Total	**1,061,964**	**634,711**

Remuneration of the Company Secretary		
Basic Salary	856,592	765,114
Travel Allowance	144,022	112,780
Cellphone Allowance	27,941	26,497
Annual Bonus	56,087	54,608
Contributions to UIFand Provident Fund.	107,961	100,513
Total	**1,192,602**	**1,059,513**

20 BOARD OF DIRECTORS RELATED COSTS	R **2019**	R **2018**
Sitting allowances and re-imbursive travel costs	1,135,302	1,346,477
Accomodation and travel costs	275,990	379,631
Total Board of Directors related costs	**1,411,292**	**1,726,108**

Board Member	**Sitting Allowance**	**Subsistence Allowance**	**Re-imbursive travel**	**TOTAL**
Mr S.E. Mase	12,192	-	43,475	55,667
Mr M. Msiwa	106,700	-	14,308	121,008
Mr M.M. Pupuma	122,100	-	72,963	195,063
Mrs N.D.A. Ngewu	66,000	-	4,833	70,833
Dr. L.L. Ndabeni	77,000	-	4,720	81,720
Ms. U.N. Mkize	116,050	-	2,026	118,076
Prof. L.Y. Majova-Songca	68,750	-	7,992	76,742
Ms. N.S.N. Bam	82,500	-	37,661	120,161
Dr. N.T. Ndudane	88,000	-	11,859	99,859
Ms. N. Makuni	50,600	-	2,383	52,983
	789,892	-	202,220	992,112

		2019	2018
21	**DEBT IMPAIRMENT**	**R**	**R**
	Trade Receivables from exchange transactions - Note 3.2	-	387,582
	Debt impairment recognised in statement of financial performance	**-**	**387,582**

22	**DEPRECIATION AND AMORTISATION**		
	Property Plant and Equipment	4,058,676	3,845,989
	Intangible Assets	178,476	170,145
		4,237,152	**4,016,134**

23	**IMPAIRMENTS**		
	Property Plant and Equipment	-	4,530,506
	Intangible assets	-	-
		-	4,530,506

24	**FINANCE CHARGES**		
	Interest expenses	40,571	31,770
	Total finance charges	**40,571**	**31,770**

25	**Operational costs**		
	Accommodation and travel	1,241,472	818,054
	Advertising and promotion	432,764	262,629
	Audit fees	2,191,200	1,693,276
	Bank charges	221,555	160,636
	Bar codes	2,110	10,615
	Cash collection services	112,046	80,958
	Cleaning	1,975	11,283
	Courier and postage	574	1,155
	Consulting and professional fees	818,814	1,121,495
	Consumables	97,444	65,336
	External project expenses	636,096	477,903
	Emploee wellness	108,758	-
	Fuel and oil	956,973	602,800
	Feed	1,011,519	781,221
	Hiring expenses	289,719	87,728
	Legal fees	-	32,940
	Licensing - software	247,918	145,201
	Livestock purchases	9,232,422	7,036,874
	Marketing	86,520	1,642
	Motor vehicle expenses	123,700	130,562
	Meat inspection	214,500	170,359
	Medication - livestock	321,575	286,489
	Municipal services	1,519,726	1,346,097
	Orchard expenses	-	1,538
	Packaging	96,670	129,303
	Printing and stationery	344,846	380,379
	Protective clothing	138,861	216,288
	Rental expenses	126,000	126,000
	Refurbishment - water services	2,825,667	577,922
	Security services	986,374	1,067,532
	Social facilitation	15,605	813,717
	Staff training	215,352	320,425
	Staff welfare	-	-
	Strategic planning session	85,190	55,251
	Subscriptions	410,818	110,373
	Telephone and fax	347,795	464,906
	Write offs - Assets	7,287,711	-
	Co-operatives development support	2,408,552	6,475
	Agricultural development	2,788,331	
	Sustainable Villages Programme	-	144,116
	Adam Kok Farms	2,646	-
	Total operational costs	**37,949,798**	**19,739,478**

26	**Contracted Services**		-
	Cleaning	230,602	224,059
	Leasing Server Hosting	-	405,840
	Insurance - assets	1,021,207	722,609
	Internal audit expenses	174,693	201,901
	Leasing Hire Fac	42,472	119,367
	Software licencing	178,163	177,114
	Veterinary services	-	25,954
	Valuation services	-	68,696
	Website maintenance	84,557	120,000
		1,731,694	**2,065,540**

		2019	2018
		R	R
27	**RECONCILIATION BETWEEN NET SURPLUS/(DEFICIT) FOR THE YEAR AND CASH GENERATED/(ABSORBED) BY OPERATIONS**		
	Surplus/(Deficit) for the year	(11,971,197)	54,568,584
	Adjustments for:		
	Depreciation	11,346,387	3,845,989
	Amortisation of Intangible Assets	178,476	170,145
	Impairments - Property, Plant and Equipment		4,530,506
	Donations received	(10,781,346)	(62,258,495)
	Adjustments to Biological Assets	(3,558,507)	(3,974,849)
	Inventory losses	-	-
	Gain on disposal of Property, Plant and Equipment	(213,286)	(300,514)
	Contribution from/to employee benefits	-	-
	Correction of prior year error - note 28	-	-
	Increase in provision for doubtful debts	-	387,582
	Operating Surplus before changes in working capital	(14,999,473)	(3,031,052)
	Changes in working capital	(3,900,873)	(607,868)
	Increase in Payables from Exchange Transactions	(110,717)	167,794
	Increase in Provision for Current Employee Benefits	644,162	(403,620)
	Increase/(Decrease) in Unspent Conditional Government Grants and Receipts	1,524,634	(4,676,132)
	(Decrease) in Taxes	2,065,948	758,551
	(Increase) / Decrease/ in Unpaid Conditional Grants and Receipts	(0)	5,810,346
	(Increase)/Decrease in Inventory	812,095	88,951
	(Increase) in Accounts Receivables	(8,836,995)	(2,353,758)
	Cash generated/(absorbed) by operations	**(18,900,347)**	**(3,638,920)**

28 **CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the cash flow statement comprise the following:

	2019	2018
Call Investments Deposits - Note 2	4,600,722	28,165,320
Cash Floats - Note 2	13,255	8,567
Bank - Note 2	1,668,332	2,706,365
Total cash and cash equivalents	**6,282,309**	**30,880,252**

29 **RECONCILIATION OF AVAILABLE CASH AND INVESTMENT RESOURCES**

	2019	2018
Cash and Cash Equivalents - Note 2	6,282,309	30,880,252
	6,282,309	30,880,252
Less:	3,290,842	1,766,208
Unspent Committed Conditional Grants - Note 13	3,290,842	1,766,208
Resources available for working capital requirements	**2,991,467**	**29,114,044**

30 **PURCHASE OF PROPERTY, PLANT AND EQUIPMENT**

30.1 **Additions to Property, Plant and Equipment**

	2019	2018
Purchase of property, plant and equipment - Note 8	7,640,901	4,612,168
Cash movement	7,640,901	4,612,168

31 **IRREGULAR, FRUITLESS AND WASTEFUL EXPENDITURE**

31.1 **Fruitless and wasteful expenditure**

Reconciliation of fruitless and wasteful expenditure:

	2019	2018
Opening balance	63,777	63,777
Fruitless and wasteful expenditure incurred	1,553	-
Fruitless and wasteful expenditure awaiting further action	**65,330**	**63,777**

Incident	Disciplinary steps/proceedings
Eleven cows were transferred to Umzikantu Red Meat Abattoir from Adam Kok Farms for slaughtering and selling. It was discovered that they were vaccinated and were not suitable for sale and human consumption.	Affected employees were found to have been negligent and sanction was passed that the loss must be recovered from them. Recovery of money will be implemented in the 2019/2020 financial year.
Legal fees incurred on collection of Red Meat Levy	Letters will be written to the affected employees as to why these legal fees of R 1,553.00 can not be recovered from them.

31.2 **Irregular expenditure**

Reconciliation of irregular expenditure:

	2019	2018
Opening balance	91,066	20,980
Irregular expenditure incurred during the year	1,459,539	70,086
	1,550,605	**91,066**
Condoned by Board of Directors	(562,009)	-
Irregular expenditure awaiting further action	**988,596**	**91,066**

In a meeting of 30 October 2019 Board of Directors condoned expenditure amounting to R 562,009.

Description of incident	2019 Amount	2018 Amount
Award made to a person in the service of the state, a community care giver in KZN Department of Health.	8,350	8,350
Award made to a supplier that has an indirect business relationship with an official of the Entity.	12,630	12,630
Bid specifications not including the local content requirement.	358,452	70,085
Expenditure incurred on long term contracts that at the time of bid publication were erroneously advertised for 26 days instead of 30 days.	470,943	-
Employees whose salaries include travel allowances used Entity vehicles	700,229	-
	1,550,605	91,066

32 ADDITIONAL DISCLOSURES IN TERMS OF MUNICIPAL FINANCE MANAGEMENT ACT

32.1 Audit fees - [MFMA 125 (1)(b)]

	2019 R	2018 R
Opening balance	-	121,168
Current year audit fee	2,191,200	1,817,476
Amount paid - current year	(2,191,200)	(1,938,644)
Closing balance	-	-

32.2 VAT - [MFMA 125 (1)(b)]

	2019 R	2018 R
Opening balance	(588,610)	(191,997)
Balance transferred from KPM	-	(251,880)
VAT payments made to SARS - previous year	588,610	191,997
VAT due to SARS - current year	(5,171,151)	(4,031,459)
VAT payments made to SARS - current year	2,516,592	3,694,729
Closing balance - Payable	**(2,654,559)**	**(588,610)**

VAT is accounted for on a payment basis.

32.3 PAYE, SDL and UIF - [MFMA 125 (1)(b)]

	2019 R	2018 R
Opening balance	910,631	341,028
Current year payroll deductions and contributions	8,085,333	6,506,402
Amount paid - current year	(8,374,043)	(5,936,799)
Closing balance	**621,920**	**910,631**

32.4 Pension and Medical Aid Deductions - [MFMA 125 (1)(b)]

	2019 R	2018 R
Opening balance	(6,038)	(6,038)
Current year payroll deductions and contributions	4,524,079	3,305,395
Amount paid - current year	(4,519,801)	(3,305,395)
Closing balance	**(1,760)**	**(6,038)**

32.5 Supply Chain Management Deviations

	2019 R	2018 R
Impractical to follow normal SCM procedures	5,726,631	6,422,210
Total	5,726,631	6,422,210

These are deviations approved by the Accounting Officer and ratified by the Board of Directors. They were also presented to the Council of the parent municipality. Most of then relate to procurement of livestock from farmers where it is impractical to follow normal procurement processes such as requesting of atleast three quotations.

33 CAPITAL COMMITMENTS

Commitments in respect of capital expenditure:

	2019 R	2018 R
Approved and contracted for:	61,295	1,506,623

Total commitments consist out of the following:

	2019 R	2018 R
- Sanitation projects	61,295	1,506,623
	61,295	**1,506,623**

This expenditure will be financed from:

	2019 R	2018 R
Government Grants	61,295	1,506,623
	61,295	**1,506,623**

34 FINANCIAL RISK MANAGEMENT

The activities of the entity expose it to a variety of financial risks, including market risk (comprising fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The entity's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the entity's financial performance.

(a Foreign Exchange Currency Risk

The entity does not engage in foreign currency transactions.

(b Price risk

The entity is not exposed to price risk.

(c Interest Rate Risk

As the entity does not have significant interest-bearing liabilities, the entity's income and operating cash flows are not substantially dependent on changes in market interest rates.

The entity analyses its potential exposure to interest rate changes on a continuous basis. Different scenarios are simulated which include refinancing, renewal of current positions, alternative financing and hedging. Based on these scenarios, the entity calculates the impact that a change in interest rates will have on the surplus/deficit for the year. These scenarios are only simulated for liabilities which constitute the majority of interest bearing liabilities.

The entity did not hedge against any interest rate risks during the current year.

(d Credit Risk

Credit risk is the risk that a counter party to a financial or non-financial asset will fail to discharge an obligation and cause the entity to incur a financial loss.

Credit risk consist mainly of cash deposits, cash equivalents, trade and other receivables and unpaid conditional grants and subsidies.

Receivables are disclosed net after provisions are made for impairment and bad debts. Trade debtors comprise of customers utilising purchasing and utilising the services of the abattoir, dispersed across different sectors and geographical areas. Credit risk pertaining to trade and other debtors is considered to be moderate due the diversified nature of debtors and immaterial nature of individual balances. In the case of consumer debtors the entity effectively has the right to terminate services to customers but in practice this is difficult to apply. In the case of debtors whose accounts become in arrears, Board endeavours to collect such accounts by "levying of penalty charges", "demand for payment", "restriction of services" and, as a last resort, "handed over for collection".

The entity only deposits cash with major banks with high quality credit standing. No cash and cash equivalents were pledged as security for financial liabilities and no restrictions were placed on the use of any cash and cash equivalents for the period under review. Although the credit risk pertaining to cash and cash equivalents are considered to be low, the maximum exposure are disclosed below.

The banks utilised by the entity for current and non-current investments are all listed on the JSE (First National Bank, Nedbank, Absa and Standard Bank). The credit quality of these institutions are evaluated based on their required SENS releases as well as other media reports. Based on all public communications, the financial sustainability is evaluated to be of high quality and the credit risk pertaining to these institutions are considered to be low.

The risk pertaining to unpaid conditional grants and subsidies are considered to be very low. Amounts are receivable from national and provincial government and there are no expectation of counter party default.

Long-term Receivables and Other Debtors are individually evaluated annually at Balance Sheet date for impairment.

	2019 R	2018 R
Financial assets exposed to credit risk at year end are as follows:		
Receivables from exchange transactions	11,220,406	1,651,914
Receivables from non-exchange transactions	192,578	924,076
Cash and Cash Equivalents	6,282,309	30,880,252
Unpaid conditional grants and subsidies	-	-
	17,695,294	**33,456,242**

(e Liquidity Risk

Prudent liquidity risk management implies maintaining sufficient cash, the availability of funding through an adequate amount of committed credit facilities. Due to the dynamic nature of the underlying business, the treasury maintains flexibility in funding by maintaining availability under credit lines.

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

The table below analyses the entity's financial liabilities into relevant maturity groupings based on the remaining period at the financial year end 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.

2019	Less than 1 year R	Between 1 and 5 years R	Between 5 and 10 years R	Over 10 Years R
Trade and Other Payables	5,494,053	-	-	-
Unspent conditional government grants and receipts	3,290,842	-	-	-
	8,784,895	-	-	-

2018	Less than 1 year R	Between 1 and 5 years R	Between 5 and 10 years R	Over 10 Years R
Trade and Other Payables	5,604,770	-	-	-
Unspent conditional government grants and receipts	1,766,208	-	-	-
	7,370,978	-	-	-

35 **FINANCIAL INSTRUMENTS**

In accordance with GRAP 104 the financial instruments of the entity are classified as follows:

35.1 **Financial Assets** **Classification**

Financial Assets	Classification		
Receivables			
Receivables from exchange transactions	Financial instruments at amortised cost	11,220,406	1,651,914
Receivables from non-exchange transactions	Financial instruments at amortised cost	192,578	924,076
Short-term Investment Deposits			
Call Deposits	Financial instruments at amortised cost	4,600,722	28,165,321
Bank Balances and Cash			
Bank Balances	Financial instruments at amortised cost	1,668,332	2,706,365
Cash Floats and Advances	Financial instruments at amortised cost	13,255	8,567
		17,695,294	**33,456,243**

SUMMARY OF FINANCIAL ASSETS

Financial instruments at amortised cost	17,695,294	33,456,243
At amortised cost	**17,695,294**	**33,456,243**

35.2 **Financial Liability** **Classification**

Financial Liability	Classification		
Payables from exchange transactions			
Trade creditors	Financial instruments at amortised cost	1,173,298	1,126,714
Other	Financial instruments at amortised cost	617,716	1,421,822
Other Payables		3,256,065	2,609,259
Government Subsidies and Grants	Financial instruments at amortised cost	3,290,842	1,766,208
		8,337,921	**6,924,003**

SUMMARY OF FINANCIAL LIABILITY

Financial instruments at amortised cost	**8,337,921**	**6,924,003**

These financial instruments are contracted to mature in one year or less after the balance sheet date.

36 **EVENTS AFTER THE REPORTING DATE**

There were no events after the reporting date which affects these annual financial statements.

37 **IN-KIND DONATIONS AND ASSISTANCE**

Internal auditor seconded from the O. R. Tambo District Municipality. Office accommodation is provided by O. R. Tambo District Municipality at no cost.

38 **CONTINGENT LIABILITIES**

	2019 R	2018 R
Man Truck & Bus (Pty) Ltd: The Entity is a second defendant on a matter involving a collision between a truck and a cow at Adam Kok Farms.	218,254	218,254
CE Du Plessis and 2 other vs OR Tambo District Municipality. Defendent is OR Tambo District Municipality and Ntinga is the second respondent. Plaintiffs alleges that their respective properties were damaged by fires which came from Adam Kok Farms owned by ORTDM and managed by Ntinga. The matter is being defended by the municipality.	1,781,524	1,781,524
Zandisile Kanise vs OR Tambo District Municipality. Defendent is OR Tambo District Municipality and Ntinga is the second respondent. Mr. Z.L. Kanise is employed by Ntinga. As per request of ORTDM he was seconded at ORTDM, Executive Mayor Office without any documentation. It is alleged that he acted as a Policy Analyst on secondment from Ntinga.	2,000,000	2,000,000
Benzile Munala vs Kei Fresh Produce Market. The matter is between Kei Fresh Produce Market and its former employee. It happened before the market was transferred to Ntinga by the municipality. The matter relates to an alleged unfair labout practice.	500,000	500,000
Sheriff of th Court - Kokstad vs Ntinga. The Sheriff is claiming re-imbursement of costs incurred after eviction of livestock at Adam Kok Farms. Ntinga is challenging the matter.	230,000	-
Kholeka Joni vs Kei Fresh Produce Market The matteris between Kei Fresh Produce Market and its former employee. It happened before the market was transferred to Ntinga by the municipality. The matter relates to an alleged unfair labour practice.	-	1,000,000

39 **RELATED PARTIES**

39.1 **Related Party Loans**

No loans to or from related parties

39.2 **Compensation of key management personnel**

The compensation of key management personnel is set out in note 18 to the Annual Financial Statements.

39.3 **Other related party transactions**

Grant Amount

O.R. Tambo District Municipality	33,853,508	32,821,584

In-kind donations and assistance

Internal auditor is seconded from the O. R. Tambo District Municipality. Office accommodation and reated municipal services are provided by O. R. Tambo District Municipality at no cost to the Entity.

2 Supply of water and sanitation services to Umzikantu Abattoir, Ikhwezi Dairy Farm and Kei Fresh Produce Market

- Value of services provide	162,666	178,074
- Interest charged on overdue accounts	34,332	-

Donation of Assets and Transfer of liabilities

Donation and transfer of assets.	10,781,346	62,258,495

39.4 **Nature of related party relationship**

O.R. Tambo District Municipality is the parent municipality of the entity

Related party transactions were undertaken at arms length.

40 **FINANCIAL SUSTAINABILITY**

The indicators or conditions that indicate that the Entity is financially stable are as follows:-

Financial Indicators

The parent municipality has transferred to the Entity revenue generating assets. Due to this, own revenue generated is improving from year to year. In addition, the extension of the mandate to include water services has expanded revenue sources for the Entity.

45 **Going concern**

The parent municipality, O.R. Tambo District Municipality, will continue providing financial support to the Entity. In the coming financial year the Entity will be implementing a strategy that is focused on generating own revenue thereby reducing reliance on grant funding.

APPENDIX A - Unaudited
NTINGA O. R. TAMBO DEVELOPMENT AGENCY SOC LTD
(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION NUMBER: 2016/272582/30)

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2019

8 PROPERTY, PLANT AND EQUIPMENT

30 JUNE 2019

APPENDIX "A"

Reconciliation of Carrying Value	Cost						Accumulated Depreciation and Impairment Losses						Carrying Value
	Opening Balance	Additions	Transferred from Parent Municipality	Disposals	Correction of prior period error	Closing Balance	Opening Balance	Depreciation Charge	Transferred from KFPM	Impairment	Disposals	Closing Balance	
	R	R		R		R	R	R		R	R	R	R
Land and Buildings	**41,141,372**	**2,230,623**	**-**	**-**		**43,371,995**	**3,050,671**	**1,010,580**	**-**	**-**	**-**	**4,061,251**	**39,310,743**
Land	23,001,877	-	-	-	-	23,001,877	-	-		-	-	-	23,001,877
Buildings	18,139,496	2,230,623	-	-	-	20,370,118	3,050,671	1,010,580	-	-	-	4,061,251	16,308,866
Other Assets	**28,751,102**	**5,410,278**	**10,781,346**	**13,858,980**	**-**	**31,283,746**	**11,910,084**	**3,046,152**	**-**	**-**	**5,880,181**	**9,076,065**	**22,207,690**
Office Equipment	688,617	206,916	-	19,912	-	875,621	374,405	100,128	-	-	13,000	461,533	414,087
Furniture & Fittings	1,267,957	152,893	-	23,227	-	1,397,623	846,991	48,244		-	20,915	874,320	523,303
Motor vehicles	2,420,816	2,429,741	-	683,175	-	4,167,382	1,184,317	646,752	-	-	614,858	1,216,211	2,951,171
Plant and equipment	11,058,364	2,075,295	10,781,346	703,690	-	23,211,315	4,077,557	2,087,573	-	-	374,006	5,791,124	17,420,191
Computer Equipment	1,470,795	545,433	-	410,759	-	1,605,469	872,606	163,455	-	-	326,896	709,165	896,304
Network Hardware	26,335	-	-	-	-	26,335	23,701			-	-	23,701	2,634
Orchard	11,818,217	-	-	11,818,217	-	-	4,530,506	-		-	4,530,506	-	-
	69,892,473	**7,640,901**	**10,781,346**	**13,858,980**	**-**	**74,655,740**	**14,960,755**	**4,056,732**	**-**	**-**	**5,880,181**	**13,137,306**	**61,518,433**

30 JUNE 2018

Reconciliation of Carrying Value	Cost						Accumulated Depreciation and Impairment Losses						Carrying Value
	Opening Balance	Additions	Transferred from Parent Municipality	Disposals	Correction of prior period error	Closing Balance	Opening Balance	Depreciation Charge	Transferred from KFPM	Impairment	Disposals	Closing Balance	
	R	R		R		R	R	R		R	R	R	R
Land and Buildings	**2,129,560**	**303,234**	**38,708,578**	**-**	**-**	**41,141,372**	**890,392**	**2,160,279**	**-**	**-**	**-**	**3,050,671**	**38,090,700**
Land	116,000	-	22,885,877	-	-	23,001,877	-	-		-	-	-	23,001,877
Buildings	2,013,560	303,234	15,822,701	-	-	18,139,495	890,392	2,160,279	-	-	-	3,050,671	15,088,823
Lease Assets	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**		**-**	**-**	**-**
Office Equipment (Lease)	-	-	-	-	-	-	-	-	-			-	-
Other Assets	**10,420,205**	**4,308,934**	**16,029,243**	**2,007,281**	**-**	**28,751,102**	**7,393,742**	**1,685,710**	**-**	**4,530,506**	**1,699,874**	**11,910,084**	**16,841,018**
Office Equipment	567,513	144,196	6,007	29,099	-	688,617	392,510		-	-	18,105	374,405	314,211
Furniture & Fittings	862,114	55,460	359,433	9,050	-	1,267,957	727,720	127,416		-	8,145	846,991	420,966
Tractor and other farming equipment	2,528,839	2,310,256	1,708,709	693,881	-	5,853,925	1,777,270	675,385		-	754,828	1,697,827	3,956,098
Motor vehicles	1,933,062	398,374	695,000	605,620	-	2,420,816	1,210,104	472,021	-	-	497,808	1,184,317	1,236,499
Plant and equipment	3,052,516	1,221,261	1,428,730	298,070	-	5,404,439	2,375,468	274,033	-	-	269,771	2,379,730	3,024,709
Computer Equipment	1,449,824	179,385	13,147	171,562	-	1,470,795	886,969	136,854	-	-	151,218	872,606	598,189
Network Hardware	26,335	-	-	-	-	26,335	23,701			-	-	23,701	2,634
Orchard			11,818,217			11,818,217				4,530,506		4,530,506	7,287,711
	12,549,765	**4,612,168**	**54,737,821**	**2,007,281**	**-**	**69,892,473**	**8,284,134**	**3,845,989**	**-**	**4,530,506**	**1,699,874**	**14,960,755**	**54,931,718**

NOTES TO THE ANNUAL FINANCIAL STATEMENTS FOR THE PERIOD ENDED 30 JUNE 2019

10 BIOLOGICAL ASSETS

30 JUNE 2019

Reconciliation of Carrying Value - Livestock	Fair Value			Quantities		
	Cattle R	Sheep R	Total R	Cattle	Sheep	Total
Opening balance	**11,232,450**	**-**	**11,232,450**	**1,312**	**-**	**1,312**
Total movements	**2,002,052**	**-**	**2,002,052**	**(229)**	**-**	**(229)**
Acquisitions	1,112,401	-	1,112,401	411	-	411
Births	94,600	-	94,600	473	-	473
Deaths	(454,650)	-	(454,650)	(64)	-	(64)
Gains from change in fair value	3,918,557	-	3,918,557	-	-	-
Disposals	(2,668,856)	-	(2,668,856)	(1,049)	-	(1,049)
Closing balance	**13,234,502**	**-**	**13,234,502**	**1,083**	**-**	**1,083**

30 JUNE 2018

Reconciliation of Carrying Value	Fair Value			Quantities		
	Cattle R	Sheep R	Total R	Cattle	Sheep R	Total R
Opening balance	**758,451**	**1,600**	**760,051**	**67**	**1**	**68**
Total movements	**10,473,999**	**(1,600)**	**10,472,399**	**1,245**	**-**	**1,244**
Acquisitions	1,203,770	-	1,203,770	165	-	165
Births	94,600	-	94,600	474	-	474
Deaths	(310,844)	-	(310,844)	(60)	-	(60)
Gains from change in fair value	4,191,093	-	4,191,093	-	-	-
Losses from change in fair value	-	-	-	-	-	-
Transfers from ORTDM	8,376,428		8,376,428	1,446	-	1,446
Transfers to inventory	(872,050)		(872,050)	(170)		(170)
Disposals	(2,208,998)	(1,600)	(2,210,598)	(610)	(1)	(611)
	11,232,450	-	11,232,450	1,312	1	1,312

APPENDIX C

NTINGA O.R. TAMBO DEVELOPMENT AGENCY

(A MUNICIPAL ENTITY OF THE O. R. TAMBO DISTRICT MUNICIPALITY : REGISTRATION NUMBER: 2016/272582/30)

DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grant Description	Balance 01 July 2018	Allocation for the year	Receipts for the year	Interest Received	Bank charges	Transfers (to) / from other projects or Revenue	Grants repaid	Conditions met	Balance 30 June 2019
	R	R	R	R	R	R	R	R	R
Unconditional Grants									
District Municipality Grants									
O.R. Tambo District Municipality - Operations funding	-	-	27,053,509	-	-	-	-	(27,053,509)	-
Total District Municipality Grants	-	-	27,053,509	-	-	-	-	(27,053,509)	-
Conditional Grants									
O.R. Tambo District Municipality Project Funds									
Adam Kok Farms Implements	1,258,542	-	-		-	118,408		(1,376,950)	-
Cooperatives Development	181,663		-			(181,663)		-	-
ORTDM Cooperatives Development Centre	-		3,600,000					(2,553,067)	1,046,933
RAFI Implementation	-		3,000,000					(1,198,263)	1,801,737
Sustainable Villages	165,745		-			(165,745)		-	-
Trade and Investment Promotion	-		200,000					(22,621)	177,379
Ikwezi Dairy Farm (feedlot facility)						229,000		(229,000)	
Total District Municipality Grants	1,605,950	-	6,800,000	-	-	-	-	(5,379,901)	3,026,049
Other Grant and Subsidy Providers									
Lefa Le Rona Trust	160,257	-	508,434	-		-	-	(665,596)	3,095
Ingquza Hill Local Municipality	-		2,019,070					(1,757,372)	261,698
Total Other Grant Providers	160,257	-	2,527,504	-	-	-	-	(2,422,968)	264,793
Total	**1,766,207**	-	**36,381,013**	-	-	-	-	**(34,856,378)**	3,290,842