



Msukaligwa Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2020

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## General Information

---

### Legal form of entity

Local Municipality

### Mayoral committee

Executive Mayor  
Speaker  
Chief Whip  
MMC - Corporate Services  
MMC - Technical Services  
MMC - Community and Social Services  
MMC - Finance  
MMC - Planning Economic Development  
Councillors

Cllr. B.J. Mkhaliphi  
Cllr. M.P. Nkosi  
Cllr. P.E. Mashiane  
Cllr. J.A. Bal  
Cllr. E.C. Msezane  
Cllr. T.A. Mnisi  
Cllr. B.J. Mkhaliphi  
Cllr. J.S. Bongwe  
Cllr. T.C. Motha  
Cllr. Z. Breydenbach  
Cllr. G.S. Greyling  
Cllr. B.I. Jiyane  
Cllr. F.J. Mabasa  
Cllr. B.I. Mabuza  
Cllr. M.E. Madonsela  
Cllr. L.S. Mahlangu  
Cllr. L.A. Maseko  
Cllr. M.Z.M. Mashiane  
Cllr. P.E. Mashiane  
Cllr. V.V. Mazibuko  
Cllr. L.D. Mndebele  
Cllr. T.J. Madlala  
Cllr. P.F. Moloji  
Cllr. B.N.N. Ndlovu  
Cllr. D.M. Nkambule  
Cllr. T. Nkosi  
Cllr. Z.J. Nkosi  
Cllr. J.J. Nzimande  
Cllr. P.T. Sibeko  
Cllr. B.J.M. Sithole  
Cllr. H.F. Swart  
Cllr. D.J. Litau  
Cllr. M.R. Yende  
Cllr. Z.K. Dhludhlu  
Cllr. J.D.A. Blignaut  
Cllr. M.J. Blose  
Cllr. L.N.V. Kubheka  
Cllr. D. Mabunda  
Cllr. N.H. Magagula  
Cllr. M. Sibeko

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## General Information

---

<b>Grading of local authority</b>	4
<b>Accounting Officer</b>	GJ Majola
<b>Chief Finance Officer (CFO)</b>	Ms. M.M.P. Matsheka - on suspension
<b>Acting Chief Finance Officer (ACFO)</b>	Mr. S Phiri
<b>Registered office</b>	Civic Centre C/o Kerk and Taute Street Ermelo 2350
<b>Business address</b>	Civic Centre C/o Kerk and Taute Street Ermelo 2350
<b>Postal address</b>	PO Box 48 Ermelo 2350
<b>Bankers</b>	First National Bank Limited Standard Bank Limited
<b>Auditors</b>	Auditor-General of South Africa Registered Auditors
<b>Attorneys</b>	TMN Kgomo & Associates Mhlongo Khumalo Attorney Gildenhuys Malatji Attorneys Mohlala Attorneys Sefalafala Attorneys Julie Mahommed Attorneys Marivate Attorneys L Guzana Inc Madonsela Mthunzi Inc
<b>Rounding</b>	All amounts have been rounded to the nearest R1
<b>Website</b>	<a href="http://www.msukaligwa.gov.za">www.msukaligwa.gov.za</a>
<b>Contact number</b>	Tel: 017 8611 Msuka (086 116 7852) Fax: 017 801 3851

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Index

---

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

	<b>Page</b>
Abbreviations	4
Accounting Officer's Responsibilities and Approval	5
Audit Committee Report	6
Accounting Office's Report	7 - 9
Statement of Financial Position	10
Statement of Financial Performance	11
Statement of Changes in Net Assets	12
Cash Flow Statement	13
Statement of Comparison of Budget and Actual Amounts	14 - 16
Appropriation Statement	17 - 19
Accounting Policies	20 - 52
Notes to the Annual Financial Statements	53 - 107

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Abbreviations

---

AGSA	Auditor-General of South Africa
CRR	Capital Replacement Reserve
COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
Mscoa	Municipal Standard Chart of Accounts
SA GAAP	South African Statements of Generally Accepted Accounting Practice

# **Msukaligwa Local Municipality**

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## **Accounting Officer's Responsibilities and Approval**

---

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the Municipality for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The annual financial statements set out on page 9, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 in line with the extension granted by the Minister of Finance Government gazette number 43582 dated 5 August 2020 and were signed on its behalf by:

---

**Municipal Manager**

**Ermelo**

**Saturday, 31 October 2020**

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Audit Committee Report

---

### 1. Audit committee members and attendance

The Audit committee consists of the members listed hereunder and should meet four times a year, as per its approved terms of reference. During the current year eight number of meetings were held.

Name of member	Number of meetings attended
N. Marobane	8
B.P. Mosomane	8
F. Mudau	7

### 2. Audit committee responsibility

The Audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The Audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

### 3. The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is effective, efficient and transparent. In line with the MFMA and the King IV report on Corporate Governance requirements, Internal audit provides the audit committee and management with assurance that the internal controls are appropriate and effective. This is achieved by means of the risk management process, as well as the identification of corrective actions and suggested enhancements to the controls and processes. From the various reports of the Internal auditors, the Audit report on the annual financial statements, and the management report of the Auditor-General South Africa, it was noted that no matters were reported that indicate any material deficiencies in the system of internal control or any deviation therefrom. Accordingly, we can report that the system of internal controls over financial reporting for the period under review was efficient and effective.

The quality of in year management and monthly/quarterly reports submitted in terms of the MFMA and the Division of Revenue Act.

The Audit committee is satisfied with the content and quality of monthly and quarterly report prepared and issued by the Accounting Officer of the municipality during the year under review.

### 4. Internal audit

The Audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Office's Report

---

The accounting officers submit their report for the year ended 30 June 2020.

### 1. Review of activities

#### Main business and operations

Net surplus of the municipality was R 1 400 857 (2019: deficit R 406 407 849).

### 2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The Provincial Executive of the Mpumalanga Provincial Government intervened in the municipality in terms of section 139(1)(b) of the Constitution and Section 139(5) of the Constitution read with Section 139 of the Municipal Finance Management Act (MFMA) (Act No. 56 of 2003).

As part of the intervention by the Provincial Executive, the Municipal Financial Recovery Services unit within the Provincial Treasury has been requested to assist with the development of a financial recovery plan for Msukaligwa Local Municipality. The financial recovery plan was developed, approved and implemented in the current financial year under review and has been monitored on a monthly basis.

The primary responsibility to avoid, identify and resolve financial problems rests with the Msukaligwa Council and the Plan must be monitored by Council, the Executive Mayor and the Municipal Manager to ensure successful implementation, and places significant implementation responsibility on the Municipal Manager, Chief Financial Officer and other senior managers.

The Municipality should move away from short term and reactionary planning to a long term stable and sustainable framework, hence the Municipality must prioritise the development of a long term spatial and financial plan that is realistic and achievable and based on sound socio-economic analysis. The financial indicators issued in MFMA Circular 71 should also be used as a basis for such a long-term financial plan.

### 3. Subsequent events

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

### 4. Accounting Officers' interest in contracts

The accounting officer does not have any direct or indirect interest's in contracts.

### 5. Accounting policies

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

### 6. Accounting Officer

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

Name  
Ms. G.J. Majola



# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Office's Report

---

### 7. Corporate governance

#### General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibilities in lieu of the MFMA, MSA and related Regulations as issued from time to time by National Treasury. We further note responsibilities with regards to the requirements of King IV. The accounting officer discuss the responsibilities of management in this respect, at Council meetings and monitor the entity's compliance with the code on a three monthly basis.

The salient features of the entity's adoption of the Code is outlined below:

#### Audit and risk committee

In the year under review, the audit committee was established, and the audit committee members appointed are as follows:

##### Audit Committee members:

Position	Name	Date appointed
Chairperson	N. Marobane	31/07/2018
Members:	P.B. Mosomane	31/07/2018
	F. Mudau	31/07/2018

##### Risk Committee member:

Position	Name	Date appointed
Chairperson	F. Mkhabela	31/07/2018

##### Performance Audit Committee members:

Position	Name	Date appointed
Chairperson	N. Marobane	31/07/2018
Members:	P.B. Mosomane	31/07/2018
	F. Mudau	31/07/2018

In terms of Section 166 of the Municipal Finance Management Act, (Act 56 of 2003), the municipality, must appoint members of the Audit Committee. Notwithstanding that councillors appointed by the parent municipality constituted the municipal Audit Committees, National Treasury policy requires that municipalities should appoint further members of the entity's audit committees who are not councillors of the municipality onto the audit committee.

#### Internal audit

The municipality has a fully functional Internal Audit Unit. This is in compliance with the Municipal Finance Management Act, 2003.

The Internal Audit Function must apply to IIA Standards during the course of implementation of their work. Reports are submitted quarterly to the ARC for consideration and approval.

### 8. Bankers

The municipality changed bank accounts during the year from Standard Bank Limited to First National Bank Limited which is used for daily operations as well as investing of grant funding.

### 9. Auditors

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

# **Msukaligwa Local Municipality**

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## **Accounting Office's Report**

---

### **10. Public Private Partnership**

In accordance with the PPP agreement, the Contractor shall open a separate account with a bank registered in the Republic of South Africa, for the purpose of administering and separate safekeeping of:

- moneys deposited as excess surpluses;
- any foreign exchange rate amounts;
- any service credits; and
- any penalties for later service commence mental text.

The municipality has no PPP agreements.

The annual financial statements set out from page 9, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

---

**Municipal Manager**

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	7	17 217 334	9 760 212
Receivables from exchange transactions	8&11	83 922 928	78 991 710
Receivables from non-exchange transactions	9&11	29 247 213	29 775 257
VAT receivable	10	162 495 610	129 851 546
Cash and cash equivalents	12	22 025 012	22 727 255
		<b>314 908 097</b>	<b>271 105 980</b>
<b>Non-Current Assets</b>			
Investment property	3	117 018 813	117 580 121
Property, plant and equipment	4	2 333 364 231	2 361 848 804
Heritage assets	5	192 195	192 195
		<b>2 450 575 239</b>	<b>2 479 621 120</b>
<b>Total Assets</b>		<b>2 765 483 336</b>	<b>2 750 727 100</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	13	2 517 437	-
Payables from exchange transactions	16	1 122 215 278	1 070 875 616
Consumer deposits	17	16 933 577	16 120 144
Employee benefit obligation	6	3 583 000	3 569 383
Unspent conditional grants and receipts	14	16 696 658	5 169 641
		<b>1 161 945 950</b>	<b>1 095 734 784</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	13	1 279 349	-
Employee benefit obligation	6	59 030 000	61 189 588
Landfill Site Provision	15	59 518 621	61 610 395
		<b>119 827 970</b>	<b>122 799 983</b>
<b>Total Liabilities</b>		<b>1 281 773 920</b>	<b>1 218 534 767</b>
<b>Net Assets</b>		<b>1 483 709 416</b>	<b>1 532 192 333</b>
Accumulated surplus		1 483 709 416	1 532 192 333

\* See Note 51

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	18	363 516 361	319 831 756
Rental of facilities and equipment	19	2 892 409	2 068 262
Agency services	21	7 767 956	9 813 696
Other income	22	15 808 231	18 611 930
Interest earned	23	39 755 456	33 311 041
<b>Total revenue from exchange transactions</b>		<b>429 740 413</b>	<b>383 636 685</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	24	115 906 363	108 686 659
<b>Transfer revenue</b>			
Government grants & subsidies	25	296 801 924	246 144 895
Fines	20	5 751 059	6 783 051
Donations received	26	2 675 968	10 124 629
<b>Total revenue from non-exchange transactions</b>		<b>421 135 314</b>	<b>371 739 234</b>
<b>Total revenue</b>		<b>850 875 727</b>	<b>755 375 919</b>
<b>Expenditure</b>			
Employee related costs	27	(235 666 695)	(211 447 691)
Remuneration of councillors	28	(15 651 343)	(15 145 232)
Repairs and Maintenance	29	(41 783 789)	(27 981 713)
Depreciation	4	(125 006 552)	(125 037 190)
Finance costs	30	(30 925 412)	(37 240 985)
Debt Impairment	31	(73 202 037)	(105 431 824)
Bulk purchases	32	(216 536 367)	(524 248 675)
Contracted services	33	(58 092 598)	(49 203 931)
General Expenses	34	(47 775 582)	(72 856 802)
<b>Total expenditure</b>		<b>(844 640 375)</b>	<b>(1 168 594 043)</b>
<b>Operating surplus (deficit)</b>		<b>6 235 352</b>	<b>(413 218 124)</b>
Loss on disposal of assets and liabilities		(11 327 569)	(5 563 832)
Fair value adjustments		819 502	4 005 640
Actuarial gain	6	7 626 181	6 312 813
(Impairment loss)/Reversal of impairments	4	(4 542 627)	1 262 867
Inventories (losses)/gains		2 590 018	792 787
		<b>(4 834 495)</b>	<b>6 810 275</b>
<b>Surplus (deficit) for the year</b>		<b>1 400 857</b>	<b>(406 407 849)</b>

\* See Note 51

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	1 831 591 655	1 831 591 655
Adjustments		
Correction of errors	107 008 527	107 008 527
<b>Balance at 01 July 2018 as restated*</b>	<b>1 938 600 182</b>	<b>1 938 600 182</b>
Changes in net assets		
Surplus for the year	(406 407 849)	(406 407 849)
Total changes	(406 407 849)	(406 407 849)
Opening balance as previously reported	1 883 989 588	1 883 989 588
Adjustments		
Correction of errors	(39 715 481)	(39 715 481)
Prior year adjustments	(361 965 548)	(361 965 548)
<b>Restated* Balance at 01 July 2019 as restated*</b>	<b>1 482 308 559</b>	<b>1 482 308 559</b>
Changes in net assets		
Surplus for the year	1 400 857	1 400 857
Total changes	1 400 857	1 400 857
<b>Balance at 30 June 2020</b>	<b>1 483 709 416</b>	<b>1 483 709 416</b>

Note(s)

\* See Note 51

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property rates		84 234 484	82 575 027
Services		404 412 073	241 207 472
Grants		296 801 924	210 946 586
Interest income		1 845 430	-
Other receipts		188 567 026	221 977 311
		975 860 937	756 706 396
<b>Payments</b>			
Employee costs		(251 318 038)	(210 021 218)
Suppliers		(537 187 316)	(629 127 439)
Finance costs		(30 925 412)	-
		(819 430 766)	(839 148 657)
<b>Net cash flows from operating activities</b>	36	<b>156 430 171</b>	<b>(82 442 261)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(118 040 059)	(107 197 257)
Proceeds from sale of property, plant and equipment	4	559 523	1 250 183
Purchase of investment property	3	-	(5 975)
<b>Net cash flows from investing activities</b>		<b>(117 480 536)</b>	<b>(105 953 049)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(2 508 920)</b>	<b>22 091 444</b>
Cash and cash equivalents at the beginning of the year		24 533 932	2 442 488
<b>Cash and cash equivalents at the end of the year</b>	12	<b>22 025 012</b>	<b>24 533 932</b>

\* See Note 51

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	378 375 887	(19 227 724)	<b>359 148 163</b>	363 516 361	<b>4 368 198</b>	49
Rental of facilities and equipment	2 295 797	1 026 751	<b>3 322 548</b>	2 892 409	<b>(430 139)</b>	
Agency services	4 178 044	-	<b>4 178 044</b>	7 767 956	<b>3 589 912</b>	50 - 2.3
Other income	22 769 117	35 350 225	<b>58 119 342</b>	15 808 231	<b>(42 311 111)</b>	50 - 2.4
Interest received - investment	33 663 844	2 930 067	<b>36 593 911</b>	39 755 456	<b>3 161 545</b>	50 - 2.5
<b>Total revenue from exchange transactions</b>	<b>441 282 689</b>	<b>20 079 319</b>	<b>461 362 008</b>	<b>429 740 413</b>	<b>(31 621 595)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	115 048 024	784 247	<b>115 832 271</b>	115 906 363	<b>74 092</b>	
<b>Transfer revenue</b>						
Government grants & subsidies	310 662 000	10 867 380	<b>321 529 380</b>	296 801 924	<b>(24 727 456)</b>	
Fines, Penalties and Forfeits	4 046 999	(3 297 207)	<b>749 792</b>	5 751 059	<b>5 001 267</b>	
Donations	-	-	-	2 675 968	<b>2 675 968</b>	
<b>Total revenue from non-exchange transactions</b>	<b>429 757 023</b>	<b>8 354 420</b>	<b>438 111 443</b>	<b>421 135 314</b>	<b>(16 976 129)</b>	
<b>Total revenue</b>	<b>871 039 712</b>	<b>28 433 739</b>	<b>899 473 451</b>	<b>850 875 727</b>	<b>(48 597 724)</b>	
<b>Expenditure</b>						
Employee related costs	(234 577 509)	11 313 808	<b>(223 263 701)</b>	(235 666 695)	<b>(12 402 994)</b>	50 - 4.1
Remuneration of councillors	(16 317 244)	-	<b>(16 317 244)</b>	(15 651 343)	<b>665 901</b>	
Repairs and maintenance	(39 159 052)	10 403 976	<b>(28 755 076)</b>	(41 783 789)	<b>(13 028 713)</b>	50 - 4.3
Depreciation and amortisation	(84 416 664)	(39 583 336)	<b>(124 000 000)</b>	(125 006 552)	<b>(1 006 552)</b>	
Impairment loss/ Reversal of impairments	-	-	-	(4 542 627)	<b>(4 542 627)</b>	
Finance costs	-	-	-	(30 925 412)	<b>(30 925 412)</b>	50 - 4.6
Debt Impairment	(80 178 742)	33 119 395	<b>(47 059 347)</b>	(73 202 037)	<b>(26 142 690)</b>	50 - 4.7
Bulk purchases	(302 138 241)	22 138 241	<b>(280 000 000)</b>	(216 536 367)	<b>63 463 633</b>	50 - 4.8
Contracted Services	(94 814 373)	2 926 383	<b>(91 887 990)</b>	(58 092 598)	<b>33 795 392</b>	50 - 4.9
General Expenses	(51 733 465)	(3 986 185)	<b>(55 719 650)</b>	(47 775 582)	<b>7 944 068</b>	
<b>Total expenditure</b>	<b>(903 335 290)</b>	<b>36 332 282</b>	<b>(867 003 008)</b>	<b>(849 183 002)</b>	<b>17 820 006</b>	
<b>Operating surplus</b>	<b>(32 295 578)</b>	<b>64 766 021</b>	<b>32 470 443</b>	<b>1 692 725</b>	<b>(30 777 718)</b>	
Loss on disposal of assets and liabilities	-	-	-	(11 327 569)	<b>(11 327 569)</b>	50 - 4.12
Fair value adjustments	-	-	-	819 502	<b>819 502</b>	
Actuarial gains/losses	-	-	-	7 626 181	<b>7 626 181</b>	50 - 4.14
Inventories losses	-	-	-	2 590 018	<b>2 590 018</b>	50 - 4.14
	-	-	-	<b>(291 868)</b>	<b>(291 868)</b>	
<b>Surplus before taxation</b>	<b>(32 295 578)</b>	<b>64 766 021</b>	<b>32 470 443</b>	<b>1 400 857</b>	<b>(31 069 586)</b>	

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(32 295 578)</b>	<b>64 766 021</b>	<b>32 470 443</b>	<b>1 400 857</b>	<b>(31 069 586)</b>	

### Reconciliation

### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	13 212 704	-	<b>13 212 704</b>	17 217 334	<b>4 004 630</b>	
Receivables from exchange transactions	86 985 559	-	<b>86 985 559</b>	82 921 830	<b>(4 063 729)</b>	
Receivables from non-exchange transactions	17 765 579	-	<b>17 765 579</b>	29 247 213	<b>11 481 634</b>	50 - 1.3
VAT receivable	-	-	-	162 495 610	<b>162 495 610</b>	50 - 1.4
Cash and cash equivalents	1 032 570	-	<b>1 032 570</b>	22 025 012	<b>20 992 442</b>	
	<b>118 996 412</b>	-	<b>118 996 412</b>	<b>313 906 999</b>	<b>194 910 587</b>	

##### Non-Current Assets

Investment property	29 105 967	-	<b>29 105 967</b>	117 018 813	<b>87 912 846</b>	50 - 1.6
Property, plant and equipment	1 935 012 287	-	<b>1 935 012 287</b>	2 333 364 231	<b>398 351 944</b>	50 - 1.7
Heritage assets	-	-	-	192 195	<b>192 195</b>	50 - 1.8
	<b>1 964 118 254</b>	-	<b>1 964 118 254</b>	<b>2 450 575 239</b>	<b>486 456 985</b>	

<b>Total Assets</b>	<b>2 083 114 666</b>	-	<b>2 083 114 666</b>	<b>2 764 482 238</b>	<b>681 367 572</b>	
---------------------	----------------------	---	----------------------	----------------------	--------------------	--

#### Liabilities

##### Current Liabilities

Finance lease obligation	-	-	-	2 517 437	<b>2 517 437</b>	50 - 1.9
Payables from exchange transactions	998 574 932	-	<b>998 574 932</b>	1 122 215 279	<b>123 640 347</b>	50 - 1.11
Consumer deposits	14 485 105	-	<b>14 485 105</b>	16 933 577	<b>2 448 472</b>	
Employee benefit obligation	-	-	-	3 583 000	<b>3 583 000</b>	
Unspent conditional grants and receipts	-	-	-	16 696 658	<b>16 696 658</b>	50 - 3.2
	<b>1 013 060 037</b>	-	<b>1 013 060 037</b>	<b>1 161 945 951</b>	<b>148 885 914</b>	

##### Non-Current Liabilities

Finance lease obligation	-	-	-	1 279 349	<b>1 279 349</b>	50 - 1.9
Employee benefit obligation	-	-	-	59 030 000	<b>59 030 000</b>	
Landfill Site Provision	57 405 590	-	<b>57 405 590</b>	59 518 621	<b>2 113 031</b>	
	<b>57 405 590</b>	-	<b>57 405 590</b>	<b>119 827 970</b>	<b>62 422 380</b>	

<b>Total Liabilities</b>	<b>1 070 465 627</b>	-	<b>1 070 465 627</b>	<b>1 281 773 921</b>	<b>211 308 294</b>	
--------------------------	----------------------	---	----------------------	----------------------	--------------------	--

<b>Net Assets</b>	<b>1 012 649 039</b>	-	<b>1 012 649 039</b>	<b>1 482 708 317</b>	<b>470 059 278</b>	
-------------------	----------------------	---	----------------------	----------------------	--------------------	--



# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	1 012 649 039	-	<b>1 012 649 039</b>	1 482 708 317	<b>470 059 278</b>	50 - 1.16
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Property rates	88 410 488	-	<b>88 410 488</b>	-	<b>(88 410 488)</b>	
Services	300 369 114	-	<b>300 369 114</b>	-	<b>(300 369 114)</b>	50 - 5.2
Grants	310 662 000	-	<b>310 662 000</b>	-	<b>(310 662 000)</b>	50 - 5.3
Interest income	2 673 650	-	<b>2 673 650</b>	-	<b>(2 673 650)</b>	50 - 5.4
Other receipts	97 222 299	-	<b>97 222 299</b>	-	<b>(97 222 299)</b>	50 - 5.5
	<b>799 337 551</b>	-	<b>799 337 551</b>	-	<b>(799 337 551)</b>	
<b>Payments</b>						
Suppliers and Employee costs	(738 739 884)	-	<b>(738 739 884)</b>	-	<b>738 739 884</b>	
<b>Net cash flows from operating activities</b>	<b>60 597 667</b>	-	<b>60 597 667</b>	-	<b>(60 597 667)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(130 074 500)	-	<b>(130 074 500)</b>	-	<b>130 074 500</b>	50 - 5.7
Net increase/(decrease) in cash and cash equivalents	(69 476 833)	-	<b>(69 476 833)</b>	-	<b>69 476 833</b>	
Cash and cash equivalents at the beginning of the year	2 442 488	-	<b>2 442 488</b>	-	<b>(2 442 488)</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>(67 034 345)</b>	-	<b>(67 034 345)</b>	-	<b>67 034 345</b>	

The accounting policies on pages 20 to 52 and the notes on pages 53 to 107 form an integral part of the annual financial statements.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2020</b>											
<b>Financial Performance</b>											
Property rates	115 048 024	-	115 048 024	-		115 048 024	115 906 363		858 339	100	100
Service charges	378 375 887	-	378 375 887	-		378 375 887	363 516 361		(14 859 526)	96	96
Investment revenue	1 800 000	-	1 800 000	-		1 800 000	39 755 456		37 955 456	222	222
Transfers recognised - operational	180 587 500	-	180 587 500	-		180 587 500	178 761 865		(1 825 635)	99	99
Other own revenue	65 153 801	-	65 153 801	-		65 153 801	45 931 324		(19 222 477)	70	70
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>740 965 212</b>	<b>-</b>	<b>740 965 212</b>	<b>-</b>		<b>740 965 212</b>	<b>743 871 369</b>		<b>2 906 157</b>	<b>100 %</b>	<b>100 %</b>
Employee costs	(234 577 509)	-	(234 577 509)	-	-	(234 577 509)	(235 666 695)	-	(1 089 186)	100	100
Remuneration of councillors	(16 317 244)	-	(16 317 244)	-	-	(16 317 244)	(15 651 343)	-	665 901	96	96
Debt impairment	-	-	-	-	-	-	(73 202 037)	-	(73 202 037)	DIV.	DIV.
Depreciation and asset impairment	(84 416 664)	-	(84 416 664)	-	-	(84 416 664)	(129 549 179)	-	(45 132 515)	154	154
Finance charges	-	-	-	-	-	-	(30 925 412)	-	(30 925 412)	DIV.	DIV.
Materials and bulk purchases	(341 297 293)	-	(341 297 293)	-	-	(341 297 293)	(216 536 367)	-	124 760 926	63	63
Other expenditure	(226 726 580)	-	(226 726 580)	-	-	(226 726 580)	(158 979 538)	-	67 747 042	70	70
<b>Total expenditure</b>	<b>(903 335 290)</b>	<b>-</b>	<b>(903 335 290)</b>	<b>-</b>	<b>-</b>	<b>(903 335 290)</b>	<b>(860 510 571)</b>	<b>-</b>	<b>42 824 719</b>	<b>95 %</b>	<b>95 %</b>
<b>Surplus/(Deficit)</b>	<b>(162 370 078)</b>	<b>-</b>	<b>(162 370 078)</b>	<b>-</b>		<b>(162 370 078)</b>	<b>(116 639 202)</b>		<b>45 730 876</b>	<b>72 %</b>	<b>72 %</b>

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	130 074 500	-	130 074 500	-		130 074 500	118 040 059		(12 034 441)	€	€
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>(32 295 578)</b>	<b>-</b>	<b>(32 295 578)</b>	<b>-</b>		<b>(32 295 578)</b>	<b>1 400 857</b>		<b>33 696 435</b>	<b>(4)%</b>	<b>(4)%</b>
<b>Surplus/(Deficit) for the year</b>	<b>(32 295 578)</b>	<b>-</b>	<b>(32 295 578)</b>	<b>-</b>		<b>(32 295 578)</b>	<b>1 400 857</b>		<b>33 696 435</b>	<b>(4)%</b>	<b>(4)%</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	195 149 001	(38 596 705)	156 552 296	-		156 552 296	112 951 699		(43 600 597)	7	€
<b>Sources of capital funds</b>											
Transfers recognised - capital	190 149 001	(50 075 001)	140 074 000	-		140 074 000	-		(140 074 000)		
Internally generated funds	5 000 000	11 478 000	16 478 000	-		16 478 000	-		(16 478 000)		
<b>Total sources of capital funds</b>	<b>195 149 001</b>	<b>(38 597 001)</b>	<b>156 552 000</b>	<b>-</b>		<b>156 552 000</b>	<b>-</b>		<b>(156 552 000)</b>	<b>- %</b>	<b>- %</b>

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	60 597 667	-	60 597 667	-		60 597 667	156 430 171		95 832 504	25	25
Net cash from (used) investing	(130 074 500)	-	(130 074 500)	-		(130 074 500)	(117 480 536)		12 593 964	9	9
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(69 476 833)</b>	<b>-</b>	<b>(69 476 833)</b>	<b>-</b>		<b>(69 476 833)</b>	<b>38 949 635</b>		<b>108 426 468</b>	<b>(56)%</b>	<b>(56)%</b>
Cash and cash equivalents at the beginning of the year	2 442 488	-	2 442 488	-		2 442 488	22 727 255		20 284 767	9	9
<b>Cash and cash equivalents at year end</b>	<b>(67 034 345)</b>	<b>-</b>	<b>(67 034 345)</b>	<b>-</b>		<b>(67 034 345)</b>	<b>61 676 890</b>		<b>(128 711 235)</b>	<b>(92)%</b>	<b>(92)%</b>

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

Figures in Rand	Note(s)	2020	2019
-----------------	---------	------	------

### 1. Presentation of Annual Financial Statements

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

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

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

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

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

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

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

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

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

#### Fair value estimation

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

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

#### Impairment testing

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

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

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 15 - Provisions.

#### Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

#### Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 6.

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

#### Allowance for doubtful debts

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

#### Offsetting

All assets and liabilities been grossed up (i.e. not offset against each other), except where offsetting is required or permitted by a Standard of GRAP or where offsetting reflects the substance of the transaction or other event

### 1.4 Investment property

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

- use in the production or supply of goods or services or for

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.4 Investment property (continued)

- administrative purposes, or
- sale in the ordinary course of operations.

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

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

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

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

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

#### Fair value

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

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

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

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

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

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

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

### 1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

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

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

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

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

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

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

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

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

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

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

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

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

---

Item	Depreciation method	Average useful life
Buildings	Straight-line	25 - 50 Years
Land - Quarry	Straight-line	Per expert report
Plant and machinery	Straight-line	4 - 15 Years
Furniture and fixtures	Straight-line	4 - 15 Years
Motor vehicles	Straight-line	5 - 15 Years
IT equipment	Straight-line	2 - 5 Years
Infrastructure - Mechanical equipment	Straight-line	10 - 20 Years
Civil structures	Straight-line	15 - 50 Years
Electricity - Distribution cables	Straight-line	40 - 50 Years
Electricity - Equipment	Straight-line	15 - 45 Years
Electricity - Public lighting	Straight-line	30 - 40 years
External facilities	Straight-line	7 -30 Years
Roads - Bridges	Straight-line	30 - 80 Years
Roads - Furniture	Straight-line	8 - 80 Years
Roads - S structure	Straight-line	10 - 50 Years
Roads - Traffic Management	Straight-line	10 - 15 Years
Sewerage - Pipe line	Straight-line	40 - 50 Years
Sewerage - Pump station	Straight-line	10 - 55 Years
Sports and playground	Straight-line	10 - 40 Years
Stormwater - Drainage construction	Straight-line	50 - 70 Years

---



# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

Stormwater - Drainage unlined	Straight-line	10 - 15 Years
Water - Dams and resevoirs	Straight-line	50 - 80 Years
Water - Other	Straight-line	15 - 20 Years
Water - Pipes and grid	Straight-line	50 - 90 Years
Water - Pumps and tanks	Straight-line	15 - 20 Years
Intangible assets - Computer software	Straight-line	3 - 5 Years

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

Assets which the entity holds for rentals to others and subsequently routinely sell as part of the ordinary course of activities, are transferred to inventories when the rentals end and the assets are available-for-sale. Proceeds from sales of these assets are recognised as revenue. All cash flows on these assets are included in cash flows from operating activities in the cash flow statement.

### 1.6 Heritage assets

Assets are resources controlled by an municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

An impairment loss of a non-cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable service amount.

An inalienable item is an asset that an municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.6 Heritage assets (continued)

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

#### Recognition

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

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

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

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

#### Impairment

The municipality assesses at each reporting date whether there is an indication that it may be impaired. If any such indication exists, the municipality estimates the recoverable amount or the recoverable service amount of the heritage asset.

### 1.7 Financial instruments

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

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

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

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

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

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

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

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.7 Financial instruments (continued)

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.7 Financial instruments (continued)

- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### Classification

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

#### Class

Trade receivables from exchange transactions  
Trade receivables from non exchange transactions  
Investments  
Cash and cash equivalents

#### Category

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

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

#### Class

Payables from exchange transactions  
Consumer deposits  
Vat Payable  
Unspent conditional grants  
Employee benefit provisions

#### Category

Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.7 Financial instruments (continued)

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.7 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

#### Fair value measurement considerations

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

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

#### Gains and losses

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

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.7 Financial instruments (continued)

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

##### Financial liabilities

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

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.7 Financial instruments (continued)

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

#### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Dividends or similar distributions relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

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

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

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

### 1.8 Statutory receivables

#### Identification

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

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

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

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

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

#### Recognition

The municipality recognises statutory receivables as follows:

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

#### Initial measurement



# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.8 Statutory receivables (continued)

The municipality initially measures statutory receivables at their transaction amount.

#### Subsequent measurement

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

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

#### Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

#### Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

#### Impairment losses

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

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

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

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

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

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

#### Derecognition

---

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.8 Statutory receivables (continued)

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

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

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

### 1.9 Leases

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

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

#### Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

Any contingent rents are expensed in the period in which they are incurred.

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.10 Inventories

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.10 Inventories (continued)

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

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

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

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

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

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

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

### 1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

#### Identification

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

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

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

#### Value in use

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

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

#### Discount rate

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

#### Reversal of impairment loss

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

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

A reversal of an impairment loss for a cash-generating asset is recognised immediately in surplus or deficit.

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

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

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

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

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

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

#### Redesignation

The redesignation 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 only occur when there is clear evidence that such a redesignation is appropriate.

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

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

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

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

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

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

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

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

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

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

Useful life is either:

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

#### Identification

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

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

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

#### Value in use

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

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

#### Depreciated replacement cost approach

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an overdesigned or overcapacity asset. Overdesigned assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

#### Restoration cost approach

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Reversal of an impairment loss

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

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

A reversal of an impairment loss for a non-cash-generating asset is recognised immediately in surplus or deficit.

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

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

#### Redesignation

The redesignation 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 only occur when there is clear evidence that such a redesignation is appropriate.

### 1.13 Employee benefits

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

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

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

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

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

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



# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.13 Employee benefits (continued)

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

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

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

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.13 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.13 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.13 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

#### Termination benefits

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

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

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

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

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

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

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

### 1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.14 Provisions and contingencies (continued)

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

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

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

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

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

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

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

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 39.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.14 Provisions and contingencies (continued)

- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

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

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

### Levies

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

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

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

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

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

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

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

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

### 1.15 Commitments

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

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure

notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract has yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.
- Other commitments for contracts that are non-cancellable or only cancellable at significant cost, contracts should relate to something other than the business of the municipality.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.16 Revenue from exchange transactions

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

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

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

#### Measurement

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

#### Sale of goods

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

- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.16 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

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

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

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

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

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

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

### 1.17 Revenue from non-exchange transactions

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

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

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

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

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

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

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

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

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

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

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



# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.17 Revenue from non-exchange transactions (continued)

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

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

#### Recognition

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

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

#### Measurement

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

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

#### Taxes

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

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

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

The taxable event for income tax is the earning of assessable income during the taxation period by the taxpayer.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for customs duty is the movement of dutiable goods or services across the customs boundary.

The taxable event for estate duty is the death of a person owning taxable property.

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

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.17 Revenue from non-exchange transactions (continued)

#### Transfers

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

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

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

#### Fines

Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset.

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

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

#### Gifts and donations, including goods in-kind

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

#### Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

### 1.18 Turnover

Turnover comprises of sales to customers and service rendered to customers. Turnover is stated at the invoice amount and is exclusive of value-added taxation.

### 1.19 Investment income

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

### 1.20 Borrowing costs

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

### 1.21 Accounting by principals and agents

#### Identification

An agent is an entity that has been directed by another entity (a principal), through a binding arrangement, to undertake transactions with third parties on behalf of the principal and for the benefit of the principal.

A principal is an entity that directs another entity (an agent), through a binding arrangement, to undertake transactions with third parties on its behalf and for its own benefit.

A principal-agent arrangement results from a binding arrangement in which one entity (an agent), undertakes transactions with third parties on behalf, and for the benefit of, another entity (the principal).

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.21 Accounting by principals and agents (continued)

#### Identifying whether an entity is a principal or an agent

When the municipality is party to a principal-agent arrangement, it assesses whether it is the principal or the agent in accounting for revenue, expenses, assets and/or liabilities that result from transactions with third parties undertaken in terms of the arrangement.

The assessment of whether a municipality is a principal or an agent requires the municipality to assess whether the transactions it undertakes with third parties are for the benefit of another entity or for its own benefit.

#### Binding arrangement

The municipality assesses whether it is an agent or a principal by assessing the rights and obligations of the various parties established in the binding arrangement.

Where the terms of a binding arrangement are modified, the parties to the arrangement re-assess whether they act as a principal or an agent.

#### Assessing which entity benefits from the transactions with third parties

When the municipality in a principal-agent arrangement concludes that it undertakes transactions with third parties for the benefit of another entity, then it is the agent. If the municipality concludes that it is not the agent, then it is the principal in the transactions.

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent. The municipality applies judgement in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

#### Recognition

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with the requirements of the relevant Standards of GRAP.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of the relevant Standards of GRAP.

### 1.22 Comparative figures

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

### 1.23 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.24 Fruitless and wasteful expenditure

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

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

### 1.25 Irregular expenditure

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

### 1.26 Budget information

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

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

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

The approved budget covers the fiscal period from 2010/04/01 to 2011/03/31.

The budget for the economic entity includes all the entities approved budgets under its control.

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

### 1.27 Related parties

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

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

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

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

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

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by that person in their dealings with the municipality.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.27 Related parties (continued)

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

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

### 1.28 Events after reporting date

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

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

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

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

### 1.29 Value added tax

The municipality is registered with the SARS for VAT on the payment basis, in accordance with the Section 15(2)(a) of the Value Added Tax Act no 89 of 1991.

### 1.30 Operating expenses

The definition of expenses encompasses expenses that arise from the ordinary activities of the entity.

Under the accrual basis of accounting, expenses are recognised when incurred, usually when goods are received or services are consumed. This may not be when the goods or services are actually paid for.

The point at which an expense is recognised is dependent on the nature of the transaction or other event that gives rise to the expense.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 2. New standards and interpretations

#### 2.1 Standards and Interpretations early adopted

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

##### **IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land**

This Interpretation of the Standards of GRAP applies to the initial recognition and derecognition of land in an entity's financial statements. It also considers joint control of land by more than one entity.

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

In accordance with the principles in the Standards of GRAP, buildings and other structures on the land are accounted for separately. These assets are accounted for separately as the future economic benefits or service potential embodied in the land differs from those included in buildings and other structures. The recognition and derecognition of buildings and other structures are not addressed in this Interpretation of the Standards of GRAP.

The effective date of the interpretation is for years beginning on or after 01 April 2019.

The municipality has early adopted the interpretation for the first time in the 2018/2019 annual financial statements.

The impact of the interpretation is not material

#### 2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2020 or later periods:

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2020	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2020	Unlikely there will be a material impact
• IGRAP 20: Accounting for Adjustments to Revenue	01 April 2020	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2020	Unlikely there will be a material impact
• GRAP 34: Separate Financial Statements	01 April 2020	Not expected to impact results but may result in additional disclosure
• GRAP 35: Consolidated Financial Statements	01 April 2020	No impact
• GRAP 36: Investments in Associates and Joint Ventures	01 April 2020	No impact
• GRAP 37: Joint Arrangements	01 April 2020	No impact
• GRAP 38: Disclosure of Interests in Other Entities	01 April 2020	No impact
• GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2020	No impact
• IGRAP 1 (revised): Applying the Probability Test on Initial Recognition of Revenue	01 April 2020	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2020	Unlikely there will be a material impact

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

### 2. New standards and interpretations (continued)

- |  |               |  |
|--|---------------|--|
| <ul style="list-style-type: none"><li>• GRAP 18 (as amended 2016): Segment Reporting</li></ul> | 01 April 2020 | Unlikely there will be a material impact |
|--|---------------|--|

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister sets the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

The objective of this guideline: The objective of this Guideline is to provide guidance that will assist entities to apply the concept of materiality when preparing financial statements in accordance with Standards of GRAP. The Guideline aims to assist entities in achieving the overall financial reporting objective. The Guideline outlines a process that may be considered by entities when applying materiality to the preparation of financial statements. The process was developed based on concepts outlined in Discussion Paper 9 on Materiality – Reducing Complexity and Improving Reporting, while also clarifying existing principles from the Conceptual Framework for General Purpose Financial Reporting and other relevant Standards of GRAP. The Guideline includes examples and case studies to illustrate how an entity may apply the principles in the Guideline, based on specific facts presented.

It covers: Definition and characteristics of materiality, Role of materiality in the financial statements, Identifying the users of financial statements and their information needs, Assessing whether information is material, Applying materiality in preparing the financial statements, and Appendixes with References to the Conceptual Framework for General Purpose Financial Reporting and the Standards of GRAP & References to pronouncements used in the Guideline.

The guideline is encouraged to be used by entities.

The municipality expects to adopt the guideline for the first time in the 2018/2020 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

Objective of this directive: The Board has approved the application of International Financial Reporting Standards (IFRS® Standards) issued by the International Accounting Standards Board (IASB®) for public entities (hereafter referred to as "an entity") that meet the criteria to apply IFRS Standards as outlined in the Directive on The Selection of an Appropriate Reporting Framework by Public Entities (Directive 12).

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

### 2. New standards and interpretations (continued)

Entities that apply IFRS Standards and operate in the public sector may need to formulate an accounting policy in the absence of an IFRS Standard that specifically applies to a transaction, other event or condition (hereafter referred to as "formulating an accounting policy") using other sources. When formulating an accounting policy in the absence of an IFRS Standard, the municipality needs to consider its users and their information needs. Users of financial statements prepared using the IFRS Standards are interested in information on the return on their investments, and/or the return of their investments, and to make decisions about providing resources to the municipality.

The objective of this Directive is to explain when, and in what circumstances, an municipality may consider the principles in a Standard of GRAP when formulating such an accounting policy.

It covers: Scope, Formulating an accounting policy in the absence of a specific IFRS® Standard, and Basis for conclusions.

The effective date of the standard is 01 April 2021.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

### 3. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	117 018 813	-	117 018 813	117 580 121	-	117 580 121

#### Reconciliation of investment property - 2020

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	117 580 121	(1 380 809)	819 502	117 018 813

#### Reconciliation of investment property - 2019

	Opening balance	Disposals	Fair value adjustments	Total
Investment property	115 228 696	(1 654 215)	4 005 640	117 580 121

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



# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 4. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	136 514 904	-	136 514 904	136 514 904	-	136 514 904
Plant and machinery	4 827 930	(2 472 148)	2 355 782	4 891 484	(2 331 288)	2 560 196
Furniture, fixtures and Office equipment	15 786 993	(8 262 708)	7 524 285	11 536 111	(7 623 386)	3 912 725
Motor vehicles	33 969 509	(10 859 993)	23 109 516	35 027 650	(11 599 323)	23 428 327
IT equipment	5 128 095	(3 453 590)	1 674 505	5 428 080	(3 691 385)	1 736 695
Community	499 043 767	(280 424 581)	218 619 186	493 607 702	(267 857 250)	225 750 452
Sanitation	766 277 672	(315 089 392)	451 188 280	720 654 351	(304 148 848)	416 505 503
Library books	10 124 629	(1 680 177)	8 444 452	10 124 629	(666 329)	9 458 300
Electrical	681 697 699	(349 337 427)	332 360 272	670 301 442	(333 183 191)	337 118 251
Roads	1 537 946 090	(917 787 390)	620 158 700	1 512 628 142	(866 546 713)	646 081 429
Water supply	1 065 580 581	(541 851 713)	523 728 868	1 069 296 438	(519 392 589)	549 903 849
Solid waste	26 151 889	(18 466 408)	7 685 481	26 151 889	(17 273 716)	8 878 173
<b>Total</b>	<b>4 783 049 758</b>	<b>(2 449 685 527)</b>	<b>2 333 364 231</b>	<b>4 696 162 822</b>	<b>(2 334 314 018)</b>	<b>2 361 848 804</b>

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	WIP	Disposals	Depreciation	Impairment	Total
Land	136 514 904	-	-	-	-	-	136 514 904
Plant and machinery	2 560 196	422 159	-	(98 923)	(447 201)	(80 449)	2 355 782
Furniture, fixtures and Office equipment	3 912 725	4 825 702	-	(80 798)	(1 091 467)	(41 877)	7 524 285
Motor vehicles	23 428 327	2 477 725	-	(1 644 647)	(1 136 948)	(14 941)	23 109 516
IT equipment	1 736 695	511 680	-	(37 816)	(508 764)	(27 290)	1 674 505
Community	225 750 452	-	8 001 215	(1 035 486)	(12 830 676)	(1 266 319)	218 619 186
Library books	9 458 300	-	-	-	(1 013 848)	-	8 444 452
Electrical	337 118 251	17 479 217	(5 180 232)	(290 056)	(16 745 071)	(21 837)	332 360 272
Roads	646 081 429	4 490 314	22 898 241	(267 704)	(52 534 547)	(509 033)	620 158 700
Sanitation	416 505 503	-	51 644 683	(2 860 788)	(12 357 775)	(1 743 343)	451 188 280
Water supply	549 903 849	3 698 074	1 682 921	(5 570 874)	(25 147 564)	(837 538)	523 728 868
Solid waste	8 878 173	50 000	(50 000)	-	(1 192 692)	-	7 685 481
	<b>2 361 848 804</b>	<b>33 954 871</b>	<b>78 996 828</b>	<b>(11 887 092)</b>	<b>(125 006 553)</b>	<b>(4 542 627)</b>	<b>2 333 364 231</b>

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	WIP	Disposals	Depreciation	Impairment	Total
Land	136 508 929	5 975	-	-	-	-	136 514 904
Plant and machinery	1 464 890	1 639 918	-	(193 529)	(329 074)	(22 009)	2 560 196
Furniture and fixtures & Office equipment	4 807 775	650 504	-	(562 227)	(952 595)	(30 732)	3 912 725
Motor vehicles	24 258 509	5 851 684	-	(4 317 556)	(1 213 756)	(1 150 554)	23 428 327
IT equipment	1 676 229	774 616	-	(85 244)	(569 334)	(59 572)	1 736 695
Community	226 121 768	11 922 900	483 906	-	(12 778 122)	-	225 750 452
Library books	-	10 124 629	-	-	(666 329)	-	9 458 300
Electrical	346 620 320	45 568 040	(38 458 203)	-	(16 611 906)	-	337 118 251
Roads	678 393 917	16 070 066	4 762 157	-	(53 144 711)	-	646 081 429
Sanitation	390 612 734	14 586 603	23 666 340	-	(12 360 174)	-	416 505 503
Water supply	568 766 882	10 132 926	(4 048 547)	-	(24 947 412)	-	549 903 849
Solid waste	10 341 950	-	-	-	(1 463 777)	-	8 878 173
	<b>2 389 573 903</b>	<b>117 327 861</b>	<b>(13 594 347)</b>	<b>(5 158 556)</b>	<b>(125 037 190)</b>	<b>(1 262 867)</b>	<b>2 361 848 804</b>

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 4. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2020

	Opening	Additions	Completed	Total
Community	483 906	8 001 215	-	8 485 121
Electrical	5 180 232	12 298 986	(17 479 218)	-
Roads	5 573 237	27 388 555	(4 490 314)	28 471 478
Sanitation	35 311 250	51 644 684	-	86 955 934
Water supply	-	5 380 995	(3 698 074)	1 682 921
Solid waste	-	-	(50 000)	(50 000)
	<b>46 548 625</b>	<b>104 714 435</b>	<b>(25 717 606)</b>	<b>125 545 454</b>

#### Reconciliation of Work-in-Progress 2019

	Opening	Additions	Completed	Total
Community	-	12 382 906	(11 899 000)	483 906
Electrical	43 638 436	6 899 413	(45 357 615)	5 180 234
Roads	861 080	23 094 811	(18 332 653)	5 623 238
Sanitation	11 644 913	39 745 019	(16 078 682)	35 311 250
Water supply	4 048 546	5 968 652	(10 017 198)	-
	<b>60 192 975</b>	<b>88 090 801</b>	<b>(101 685 148)</b>	<b>46 598 628</b>

#### Projects taking significantly longer to complete

Expansion of Mavundla Road ward 17 with a contract amount of R 1,578,788.52 awarded on 10 March 2020. The project is taking longer due to a nation wide lockdown due to Covid-19 and an extension of time was submitted.

Appointment for the design and construction supervision for the upgrading of a road at Kwadela old Cemetery with a contract amount of R 759,750.00 awarded on 8 July 2019. The project is taking longer due to a nation wide lockdown due to Covid-19 and an extension of time was submitted and approved. The revised completion date is 18 September 2020.

Upgrading of gravel to interlocking concrete paved road in Wesselton Ext. 6 Ward 2 Emadamini with a contract amount of R 3,968,644.38 awarded on 2 September 2019. The project is taking longer due to a nation wide lockdown due to Covid-19 and an extension of time was submitted and approved. The revised completion date was 2 July 2020 and the project has been completed since. .

Construction of paved road at Masango Street with a contract amount of R 3,329,952.15 awarded on 10 February 2020. The project is taking longer due to a nation wide lockdown due to Covid-19 and an extension of time was submitted and approved.

Internal sewer network in Breyton Ext. 5 with a contract amount of R 6,970,938.50. The project is taking longer due to poor performance by the contractor. The contractor was terminated because of reasons stated above on 25 September 2019.

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

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 4. Property, plant and equipment (continued)

#### Impairments

During the financial year, the municipality impaired various assets within Property, Plant and Equipment. This followed after a process of physical verification and condition grading, which prompted the municipality to relook the remaining useful life of these assets. These impairments are aligned with the Impairment Methodology adopted by the municipality and contained in its Asset Management Policy. The Asset Management Policy is again aligned with the Accounting Policy of the municipality and complies with GRAP 21 and 26.

#### Infrastructure:

Community: R 1 266 319

After physical verification, the condition grading on six (6) community assets deteriorated as such which prompted the municipality to impair these assets.

Electrical: R 21 837

After physical verification, the condition grading on three (3) electrical assets deteriorated as such which prompted the municipality to impair these assets.

Roads: R 509 033

After physical verification, the condition grading on eleven (11) road and storm water assets deteriorated as such which prompted the municipality to impair these assets.

Sanitation: R 1 743 343

After physical verification, the condition grading on seven (7) sanitation assets deteriorated as such which prompted the municipality to impair these assets.

Water Supply: R 837 538

After physical verification, the condition grading on twenty-two (22) water supply assets deteriorated as such which prompted the municipality to impair these assets.

#### Moveable Assets

Plant and Machinery: R 80 449

After physical verification, the condition grading on twelve (12) items deteriorated as such which prompted the municipality to impair these assets.

Furniture, Fixtures and Fittings: R 41 877

After physical verification, the condition grading on one hundred and ten (110) items deteriorated as such which prompted the municipality to impair these assets.

Motor Vehicles: R 14 941

After physical verification, the condition grading on two (2) transport assets deteriorated as such which prompted the municipality to impair these assets.

IT Equipment: R 27 290

After physical verification, the condition grading on forty-one (41) items deteriorated as such which prompted the municipality to impair these assets.

Detailed descriptions, component types and photographs of these impaired assets are available in the Fixed Asset Register of the municipality.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 4. Property, plant and equipment (continued)

#### Disposals

During the financial year the municipality incurred disposals/write-offs on its Property, Plant and Equipment due to various factors. These included, amongst others, infrastructure that were upgraded (for example, roads that have been replaced by new brick paved roads, including upgrades to its storm water systems) or infrastructure that were downgraded and written off due to theft, vandalism, fire damage, lightning damage, normal breakage or demolition.

#### Infrastructure assets:

Community: R 1 035 486

The single storey community centre in Silindile, Lothair was demolished and a new fire station is being erected on the site. Three electrical water pumps attached to the Thusiville Library were removed during the Covid-19 hard lockdown period and they could not be found during verification. The flood light system at the old age home and day care centre in Wesselton has been vandalized to such an extent that it had to be written off. The perimeter protection fence at the Kwadela Sports Ground were stolen.

Electrical: R 290 056

Various pole mounted transformers were replaced due to lightning damage/normal wear and tear. The substation at Thusiville Village was upgraded and equipment were replaced.

Roads: R 267 704

The dilapidated asphalt road (Mavundla Street) in Wesselton was replaced with a new brick paved road and the gravel roads at Motau/Tutu Streets in Wesselton have been upgraded.

Sanitation: R 2 860 788

The wastewater treatment works in Davel and Ermelo are being upgraded, and various submersible pumps, electrical motors, pipes and valves were written off and replaced.

Water Supply: R 5 570 874

Various boreholes and handpumps were written off due to disrepair. The reservoir in Sheepmoor was written off due to cracks and a project is currently in process to replace damaged equipment. Various water pumps were written off and replaced at the Lothair and Douglas Dam water treatment works.

#### Moveable assets

Plant and Machinery: R 98 923

Furniture, Fixtures and Fittings: R 80 798

Motor Vehicles: R 1 644 647

IT Equipment: R 37 816

Council approved the disposal of various obsolete and redundant movable assets on 30 June 2020 (7<sup>th</sup> Ordinary Council Meeting).

Detailed descriptions, component types and rand values assigned to each of the above written off assets can be found in the Fixed Asset Register of the municipality.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Heritage assets

	2020			2019		
	Fair value	Accumulated impairment losses	Carrying value	Fair value	Accumulated impairment losses	Carrying value
Heritage assets which fair values cannot be reliably measured: (Para .94)						
Art Collections, antiquities and exhibits	192 195	-	192 195	192 195	-	192 195

#### Reconciliation of heritage assets 2020

	Opening balance	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)		
Art Collections, antiquities and exhibits	192 195	192 195

#### Reconciliation of heritage assets 2019

	Opening balance	Fair value adjustment	Total
Heritage assets which fair values cannot be reliably measured: (Para .94)			
Art Collections, antiquities and exhibits	1 047 705	(855 510)	192 195

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

Figures in Rand

2020

2019

---

### 6. Employee benefit obligations

#### Defined benefit plan

The plan is a final salary pension / flat plan or a post employment medical benefit plan.

#### Post retirement medical aid plan



# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 6. Employee benefit obligations (continued)

#### Introduction

In estimating the unfunded liability for post-employment health care benefits a number of assumptions are required. GRAP 25 requires the actuarial assumptions to be unbiased (i.e. neither imprudent nor excessively conservative) and mutually compatible (i.e. reflective of the economic relationships between factors such as return on assets and inflation rates). This appendix reviews the most important of these assumptions.

#### Components of Health Care Liabilities

Contribution rates tables are based only on type and number of dependants, and income. As expected health care costs (or claims) tend to increase with average age, younger (in-service) members generally subsidise older (continuation) members.

#### Contributions-based Liability:

This is the present value of all future post-retirement health care contributions expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside today to cover all expected post-retirement health care contributions (both the employer and continuation members' shares) for the current membership.

#### Benefits-based Liability:

This is the present value of all future post-retirement health care costs expected to become payable under the employer's health care arrangements, based on the assumptions made. It may be regarded as the amount that should be set aside in today's terms to cover all expected post-retirement health care benefits payable for the current membership, ignoring what contributions may be payable.

#### Cross-subsidy Liability:

This is the difference between the Benefits-based Liability and the Contributions-based Liability, as defined above. It may be regarded as the amount of money in present-day terms that is expected to flow from other members of the medical scheme(s) in question, to cover the shortfall between post-retirement benefits and contributions payable. These other members are generally in-service members of the employer, and/or of other employers participating in the medical scheme(s). The liability disclosed in this report does not include any allowance for any potential Cross-subsidy Liability that may arise. The Cross-subsidy liability is not required for GRAP 25 recognition purposes.

#### Past-service and future-service liability:

Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old in-service member with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the member "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, is then 15/35 of the total liability. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the member over the next 12 months. In this example, this amounts to 1/35 of the total liability.

Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element. It should be noted that, in cases where the employer continues to pay a health care subsidy to the widow[er] and/or children of employees who die while in service, there is a liability contingent upon the death of an employee prior to retirement. This so-called Death-in-service Liability would be regarded as a post-employment liability under the requirements of GRAP 25.

#### Impact of COVID-19

It is difficult to estimate what impact the pandemic is likely to have on the Municipality's liability at this early stage. There is much uncertainty as to how it will affect mortality, and whether (and when) a treatment or vaccine will become available. If the return to economic normalcy is extended, then the Municipality's experience regarding resignations and retrenchments may also be affected. Medical scheme contributions are also likely to increase by more than expected.

30 June 2020 long-term government bond yields (which drive the main figures in this report) increased dramatically since the early stages of the pandemic. This pushes up the net discount rate which in turn reduces the liability. It is impossible to say how long-lasting this volatility in the prescribed discount rate and its consequent impact on the liability is likely to be. The sensitivities in Table 7.1 (and 7.3) above may be used to estimate the possible impact on the liability (and expenses) by an increase in the health care inflation rate, or an increase in the discount rate, or a reduction in longevity (" +1 yr" in the tables).

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 6. Employee benefit obligations (continued)

#### **Accrued Liability:**

In defining what liability the employer should focus on for accounting purposes, a sensible starting point is the value of the employer's share of the Contributions-based Liability. This is based on the subsidy policy in question, whether it is defined via contracts of employment or established practice.

#### **Cross-subsidy Liability:**

The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer. For example, should the law governing medical aid schemes be changed in future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

#### **Unfunded Accrued Liability:**

This is the difference between the Accrued (or past-service) Liability and the value of any off balance sheet assets that have been accumulated specifically by the employer to provide for its post-retirement health care liabilities. Given the process described above, the liability in respect of current continuation members may be regarded as fully accrued, and is therefore not split between a past-service (or accrued) and future-service element.

#### **Financial Assumptions**

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

#### **Discount Rate:**

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 10.37% per annum has been used. The corresponding index-linked yield at this term is 4.70%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2020.

#### **Health Care Cost Inflation Rate:**

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 6.44% has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 4.94%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 3.69% which derives from  $((1+10.37\%)/(1+6.44\%))-1$ .

The expected inflation assumption of 4.94% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (4.70%) and those of fixed interest bonds (10.37%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows:  $((1+10.37\%-0.50\%)/(1+4.70\%))-1$ .

The next contribution increase was assumed to occur with effect from 1 January 2021.

#### **Demographic Assumptions**

Demographic assumptions are required to estimate the changing profile of current employees and retirees who are eligible for post-employment benefits.

#### **Pre-retirement Mortality:**

SA85-90 ultimate table, adjusted down for female lives.

#### **Average Retirement Age:**

The normal retirement age of employees is 65. It has been assumed that employees will retire at age 62 on average, which then implicitly allows for expected rates of ill-health and early retirement. Employees who have passed the assumed average

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

Figures in Rand

2020

2019

---

### 6. Employee benefit obligations (continued)

retirement age, have been assumed to retire at their next birthday.

#### Long service award liability

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 6. Employee benefit obligations (continued)

#### Introduction

In estimating the unfunded liability for LSA of Msukaligwa Municipality a number of assumptions are required. GRAP 25 requires the actuarial assumptions to be unbiased (i.e. neither imprudent nor excessively conservative) and mutually compatible (i.e. reflective of the economic relationships between factors such as return on assets and inflation rates). This appendix reviews the most important of these assumptions.

#### Total long service award liability:

This is the present value of the total LSA expected to become payable under the employer's current arrangements and based on the assumptions made. This may be regarded as the amount of money that should be set aside in present-day terms to cover all expected LSA for current employees.

#### Past-service and future-service liability:

Liabilities of an employer may be split between a past-service (or accrued) element and a future-service element. This serves to recognise the manner in which the accounting standards suggest that the liabilities be accrued uniformly over an employee's period of service. The method of accrual that has been used in this valuation is based on length of service at the valuation date relative to total potential service until the expected retirement date. For example, a 40-year-old employee with 15 years of service and an expected retirement age of 60 has a total potential service of 35 years. In this case, assuming that the employee "earns" an equal share for each year of service, the past-service liability assumed to have accrued at the valuation date, for the 20- and 25-year LSA are then 15/20 and 15/25 of the respective total liabilities. The future service liability is the difference between the total liability and the past-service liability. The current service cost for the following year is determined as the amount assumed to accrue to the employee over the next 12 months. In this example, these amount to 1/20 and 1/25 of the respective total liabilities.

#### Unfunded Accrued Liability:

This is the difference between the Accrued (or past-service) Liability and the value of any off-balance sheet assets that have been accumulated specifically by the employer to provide for its LSA liabilities.

#### Impact of COVID-19

It is difficult to estimate what impact the pandemic is likely to have on the Municipality's liability at this early stage. There is much uncertainty as to how it will affect mortality, and whether (and when) a treatment or vaccine will become available. If the return to economic normalcy is extended, then the Municipality's experience regarding resignations and retrenchments may also be affected.

30 June 2020 long-term government bond yields (which drive the main figures in this report) increased dramatically since the early stages of the pandemic. This pushes up the net discount rate which in turn reduces the liability. It is impossible to say how long-lasting this volatility in the prescribed discount rate and its consequent impact on the liability is likely to be.

The sensitivities in Table 7.1 (and 7.3) above may be used to estimate the possible impact on the liability (and expenses) by an increase in the general earnings inflation rate, or an increase in the discount rate, or an increase in the withdrawal rates.

#### Cross-subsidy Liability:

The employer's share of the Cross-subsidy Liability (as defined above) may in certain circumstances be regarded as a contingent liability of the employer. For example, should the law governing medical aid schemes be changed in future to allow for age-based contribution rates. This potential liability has not been evaluated as part of this exercise.

#### Unfunded Accrued Liability:

The Employer's Unfunded Accrued Liability at 30 June 2020 is estimated at R 11,759,000.

The Current-Service Cost for the years ending 30 June 2020 and 30 June 2021 are estimated at R 980,977 and R 1,053,000 respectively.

#### Long service awards

The Municipality offers employees LSA for every five years of service completed, from five years of service to 45 years of service, inclusive completed Service (in years) Long Service Bonuses (% of Annual Salary) Description

5 2% 5/250 x annual salary

10 4% 10 / 250 x annual salary

15 8% 20 / 250 x annual salary

20,25,30,35 12% 30 / 250 x annual salary

40 16% 40 / 250 x annual salary

45 18% 45 / 250 x annual salary

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 6. Employee benefit obligations (continued)

#### Financial Assumptions:

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

#### Discount Rate:

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 7.26% per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payment of long service awards, for each employee. The 7.26% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 3.73%. These rates do not reflect any adjustment for taxation, and were deduced from the interest rate data obtained from the JSE after the market close on 30 June 2020.

#### Earnings Inflation Rate:

This assumption is required to reflect the estimated growth in earnings of the eligible employees until retirement. It is important in that the LSA are based on an employee's earnings at the date of the award.

The assumption is traditionally split into two components, namely General Earnings Inflation and Promotional Earnings Escalation. The latter is considered under demographic assumptions.

#### General Earnings Inflation Rate:

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

The expected inflation assumption of 2.92% was obtained from the differential between market yields on index-linked bonds (3.73%) consistent with the estimated terms of the liabilities and those of nominal bonds (7.26%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as  $((1+7.26\%-0.50\%)/(1+3.73\%))-1$ .

Thus, a general earnings inflation rate of 3.92% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 3.21%. It has been assumed that the next general earnings increase will take place on 1 July 2021.

#### Demographic Assumptions

Demographic assumptions are required about the future characteristics of current employees who are eligible for LSA.

#### Pre-retirement Mortality:

SA85-90 ultimate table, adjusted down for female lives.

#### Average Retirement Age:

The normal retirement age of employees is 65. It has been assumed that employees will retire at age 62 on average, which then implicitly allows for expected rates of ill-health and early retirement. Employees who have passed the assumed average retirement age, have been assumed to retire at their next birthday.

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

#### **Carrying value**

Present value of the defined benefit obligation-wholly unfunded	(62 613 000)	(64 758 971)
Non-current liabilities	(59 030 000)	(61 189 588)
Current liabilities	(3 583 000)	(3 569 383)
	<b>(62 613 000)</b>	<b>(64 758 971)</b>

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>6. Employee benefit obligations (continued)</b>		
<b>Changes in the present value of the defined benefit obligation are as follows:</b>		
Opening balance	64 758 971	66 181 280
Contributions paid	(2 268 824)	(2 848 975)
Expected benefit vesting	(1 073 792)	(1 157 319)
Net expense recognised in the statement of financial performance	1 196 645	2 583 985
	<b>62 613 000</b>	<b>64 758 971</b>
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	3 076 432	2 907 737
Interest cost	5 746 394	5 989 061
Actuarial (gains)/losses	(7 626 181)	(6 312 813)
	<b>1 196 645</b>	<b>2 583 985</b>
<b>7. Inventories</b>		
Consumables	17 217 334	9 681 908
Water	-	78 304
	<b>17 217 334</b>	<b>9 760 212</b>
Carrying value of inventories carried at fair value less costs to sell	18 026 557	9 760 212
<b>Inventory pledged as security</b>		
None of the inventory was pledged as security.		
<b>8. Receivables from exchange transactions</b>		
Prepaid electricity	4 727 216	14 014 482
Debtor - Gert Sibande District Municipality	4 170 329	-
Consumer debtors - Electricity	29 985 220	27 227 259
Consumer debtors - Water	20 328 231	15 491 547
Consumer debtors - Sewerage	10 032 297	9 082 522
Consumer debtors - Refuse	8 913 415	7 286 032
Consumer debtors - Services	5 143 547	5 440 705
Consumer debtors - Rentals	620 032	446 050
Consumer debtors - Land sales	2 641	3 113
	<b>83 922 928</b>	<b>78 991 710</b>
<b>9. Receivables from non-exchange transactions</b>		
Fines	994 903	896 807
Consumer debtors - Rates	28 252 310	28 878 450
	<b>29 247 213</b>	<b>29 775 257</b>
<b>10. VAT receivable</b>		
VAT	162 495 610	129 851 546

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>11. Consumer debtors disclosure</b>		
<b>Gross balances</b>		
Consumer debtors - Rates	137 732 690	115 264 621
Consumer debtors - Electricity	150 166 682	129 795 182
Consumer debtors - Water	189 147 243	160 739 562
Consumer debtors - Sewerage	109 435 859	91 364 356
Consumer debtors - Refuse	112 543 440	94 885 032
Consumer debtors - Service debtors	50 012 611	44 337 882
Consumer debtors - Rentals	5 852 541	4 729 068
Consumer debtors - Land sale	40 953	43 700
	<b>754 932 019</b>	<b>641 159 403</b>
<b>Less: Allowance for impairment</b>		
Consumer debtors - Rates	(109 480 380)	(86 386 171)
Consumer debtors - Electricity	(120 181 462)	(102 567 923)
Consumer debtors - Water	(168 819 012)	(145 248 015)
Consumer debtors - Sewerage	(99 403 562)	(82 281 834)
Consumer debtors - Refuse	(103 630 025)	(87 599 000)
Consumer debtors - Service debtors	(44 869 064)	(38 897 177)
Consumer debtors - Rentals	(5 232 509)	(4 283 018)
Consumer debtors - Land sale	(38 312)	(40 587)
	<b>(651 654 326)</b>	<b>(547 303 725)</b>
<b>Net balance</b>		
Consumer debtors - Rates	28 252 310	28 878 450
Consumer debtors - Electricity	29 985 220	27 227 259
Consumer debtors - Water	20 328 231	15 491 547
Consumer debtors - Sewerage	10 032 297	9 082 522
Consumer debtors - Refuse	8 913 415	7 286 032
Consumer debtors - Service debtors	5 143 547	5 440 705
Consumer debtors - Rentals	620 032	446 050
Consumer debtors - Land sale	2 641	3 113
	<b>103 277 693</b>	<b>93 855 678</b>
<b>Rates</b>		
Current (0 -30 days)	10 239 934	10 429 220
31 - 180 days	7 146 456	7 652 760
181 - 360 days	4 091 169	4 053 177
Over 1 year	4 382 408	3 865 866
Over 2 years	2 392 343	2 877 427
	<b>28 252 310</b>	<b>28 878 450</b>
<b>Electricity</b>		
Current (0 -30 days)	18 128 913	15 500 405
31 - 180 days	5 424 054	4 039 887
181 - 360 days	2 192 453	2 643 030
Over 1 year	2 247 824	2 775 408
Over 2 years	1 991 976	2 268 529
	<b>29 985 220</b>	<b>27 227 259</b>

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>11. Consumer debtors disclosure (continued)</b>		
<b>Water</b>		
Current (0 -30 days)	6 949 250	4 963 015
31 - 180 days	4 892 798	3 011 851
181 - 360 days	2 727 774	2 162 966
Over 1 year	2 800 298	2 749 379
Over 2 years	2 958 111	2 604 336
	<b>20 328 231</b>	<b>15 491 547</b>
<b>Sewerage</b>		
Current (0 -30 days)	3 678 334	3 097 652
31 - 180 days	2 915 853	2 476 843
181 - 360 days	1 250 522	1 278 166
Over 1 year	1 325 039	1 278 123
Over 2 years	862 549	951 738
	<b>10 032 297</b>	<b>9 082 522</b>
<b>Refuse</b>		
Current (0 -30 days)	3 173 357	2 617 612
31 - 180 days	2 457 076	1 522 364
181 - 360 days	1 082 980	1 032 575
Over 1 year	1 205 918	1 185 940
Over 2 years	994 084	927 541
	<b>8 913 415</b>	<b>7 286 032</b>
<b>Service debtors</b>		
Current (0 -30 days)	863 611	851 492
31 - 180 days	456 226	609 995
181 - 360 days	1 079 794	1 286 295
Over 1 year	948 684	1 209 570
Over 2 years	1 795 232	1 483 353
	<b>5 143 547</b>	<b>5 440 705</b>
<b>Rentals</b>		
Current (0 -30 days)	125 567	121 807
31 - 180 days	182 345	95 061
181 - 360 days	192 876	62 737
Over 1 year	93 782	132 269
Over 2 years	25 462	34 176
	<b>620 032</b>	<b>446 050</b>
<b>Land sales</b>		
Current (0 -30 days)	67	163
31 - 180 days	166	411
181 - 360 days	403	502
Over 1 year	995	1 010
Over 2 years	1 010	1 027
	<b>2 641</b>	<b>3 113</b>

## 12. Cash and cash equivalents

Cash and cash equivalents consist of:



# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>12. Cash and cash equivalents (continued)</b>		
Petty cash	37 064	33 520
Bank balances	1 265 977	22 442 540
Short-term deposits	20 721 971	251 195
	<b>22 025 012</b>	<b>22 727 255</b>

### The municipality had the following bank accounts

Account	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
Standard Bank Business - 031077110	-	26 565 346	1 295 946	-	24 500 412	1 295 946
Standard Bank - Market link - 335515525	-	-	657 665	-	-	-
Standard Bank - Call Account - 738887536-017	-	-	455 357	-	-	-
First National Bank - Current Account - 62822833267	1 265 977	-	-	(2 511 510)	-	-
First National Bank - Call Account - 62837049031	20 721 971	-	-	-	-	-
<b>Total</b>	<b>21 987 948</b>	<b>26 565 346</b>	<b>2 408 968</b>	<b>(2 511 510)</b>	<b>24 500 412</b>	<b>1 295 946</b>

### 13. Finance lease obligation

#### Minimum lease payments due

- within one year	1 462 908	-
- in second to fifth year inclusive	2 681 998	-

less: future finance charges	4 144 906	-
	(348 119)	-

<b>Present value of minimum lease payments</b>	<b>3 796 787</b>	<b>-</b>
--	------------------	----------

#### Present value of minimum lease payments due

- within one year	1 279 349	-
- in second to fifth year inclusive	2 517 437	-

	<b>3 796 786</b>	<b>-</b>
--	------------------	----------

Non-current liabilities	1 279 349	-
Current liabilities	2 517 437	-
	<b>3 796 786</b>	<b>-</b>

The lease term was 3 years. Interest rates are fixed at the contract date. Leases have fixed repayments. No arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

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

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>14. Unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
Water services infrastructure grant	291 038	-
Financial management grant	24 737	-
Municipal infrastructure grant	-	1 518 438
Sport and recreation grant - National lottery	700 000	700 000
Regional bulk infrastructure grant	15 470 329	-
Municipal disaster relief grant	1 980	-
Intergrated national electrification programme	208 574	2 951 203
	<b>16 696 658</b>	<b>5 169 641</b>
<b>Movement during the year</b>		
Additions during the year	313 498 582	251 329 590
Income recognition during the year	(296 801 924)	(246 159 949)
	<b>16 696 658</b>	<b>5 169 641</b>

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised.

See note for reconciliation of grants from National/Provincial Government.

These amounts are invested in a ring-fenced investment until utilised.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 15. Landfill Site Provision

#### Reconciliation of landfill site provision - 2020

	Opening Balance	Finance cost	Total
Landfill site	61 610 395	(2 091 774)	59 518 621

#### Reconciliation of landfill site provision - 2019

	Opening Balance	Finance cost	Total
Landfill site	56 438 511	5 171 884	61 610 395

#### Environmental rehabilitation provision

The provision for rehabilitation of landfill sites relates to the legal obligation, in terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No. 28 of 2002), whereby the municipality is required to execute the environmental management program to restore the landfill sites at Ermelo, Breyten, Davel, Lothair and Chrissiesmeer to comply with the permit requirements.

The provision was determined by an independent expert as at 30 June 2020 and approximates the discounted expected future cash flows using reasonable estimation techniques. The discount rate used for the landfill sites is based on a bond rate that matures as close as possible to the future date of the rehabilitation. The final rehabilitation of the landfill sites are expected to be over a period of 19 years, being the estimated useful lives of landfill sites. No uncertainties were listed in the engineer's report. The certainty and the timing of the outflow of these liabilities are uncertain and the amounts disclosed are the possible outflow amounts.

The value of the provision is based on the expected future cost to rehabilitate the various sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful lives and makes assumptions as to the useful lives of these, assets, which influence the provision for future costs.

Key assumptions used:

Total area expected to be rehabilitated: 179 596 square metres

Average rate per square metre: R406 (excl. VAT)

The area to be rehabilitated can be reconciled to the different sites as follows:

Ermelo	: 109 370 square metres
Breyten	: 38 041 square metres
Davel	: 8 051 square metres
Lothair	: 20 081 square metres
Chrissiesmeer	: 4 053 square metres

Each of the landfill sites has adequate footprint and airspace available for the disposal of solid waste until at least 2024, except for Lothair.

Lothair:

The Lothair landfill site has ceased to operate. Closure works have not yet commenced despite there being a limit of 3 years for this activity to commence. Based on historical evidence, the Lothair landfill operated as communal dump (as opposed to a sanitary landfill). Waste disposal was generally contained to a specific area and intermittently covered. It should be noted that the site has not been developed within the area specified in the waste licence. It is therefore assumed that the footprint of the waste pile is as per evidence in historical imagery and that the Municipality will amend the coordinates of the site in the closure licence.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>16. Payables from exchange transactions</b>		
13th cheque accrual	5 096 949	3 901 280
Employee related payable and accruals	4 162 182	5 653 337
Licensing and registration	69 834 605	36 537 160
Retentions and guarantees held	14 475 577	9 806 422
Stale votes	351 767	3 575 515
Creditors return of payments	422 435	(2 010 455)
Unallocated receipts	23 126 439	19 568 331
Fleet cards	11 149	-
Leave pay accrual	20 176 108	17 053 884
Year end accruals	74 907 920	387 027 956
Trade payables to be written off	723 669	(377 674 527)
Receivables paid in advance	12 418 940	10 562 489
Trade payables	896 507 538	956 874 224
	<b>1 122 215 278</b>	<b>1 070 875 616</b>
<b>17. Consumer deposits</b>		
Consumer deposits	16 933 577	16 120 144
<b>18. Service charges</b>		
Sale of electricity	220 610 832	203 049 461
Sale of water	70 616 828	57 341 220
Sewerage and sanitation charges	39 906 051	32 539 918
Refuse removal	32 382 650	26 901 157
	<b>363 516 361</b>	<b>319 831 756</b>
<b>19. Rental of facilities and equipment</b>		
<b>Premises</b>		
Premises	1 979 288	1 691 490
<b>Facilities and equipment</b>		
Rental of equipment	913 121	376 772
	<b>2 892 409</b>	<b>2 068 262</b>
<b>20. Fines</b>		
Traffic	5 486 847	6 780 139
Fire, library and other	4 600	2 912
Rezoning	259 612	-
	<b>5 751 059</b>	<b>6 783 051</b>
<b>21. Agency services</b>		
Services provided	7 767 956	9 813 696

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>22. Other income</b>		
Advertising	217 070	224 547
Tender fees	294 104	442 244
Connection fees	4 573 711	5 518 862
Fire brigade services	2 295 025	2 167 087
Planning and development	1 638 073	1 526 060
Photocopies	240 561	313 637
Sundry income	475 305	481 602
Cemetary and burial	533 218	778 711
Licenses and permits	5 455 646	6 940 219
Commission	85 518	218 961
	<b>15 808 231</b>	<b>18 611 930</b>
<b>23. Interest earned</b>		
<b>Interest earned</b>		
Consumer debtors	35 810 244	29 923 434
Land fill site	2 091 775	-
Investment revenue	1 853 437	3 387 607
	<b>39 755 456</b>	<b>33 311 041</b>
<b>24. Property rates</b>		
<b>Rates received</b>		
Residential	39 235 860	37 930 011
Commercial	43 147 678	39 772 026
State	27 241 479	25 310 720
Small holdings and farms	6 281 346	5 673 902
	<b>115 906 363</b>	<b>108 686 659</b>
<b>Valuations</b>		
Residential	6 918 180 000	6 889 934 000
State	1 076 184 000	1 089 724 000
Municipal	201 171 000	192 520 000
Agriculture	4 291 845 000	4 282 514 000
Business	1 278 157 000	1 277 782 000
Public service infrastructure	29 464 000	29 463 000
	<b>3 795 001 000</b>	<b>3 761 937 000</b>

Valuations on land and buildings are performed every 4 to 5 years. The last general valuation came into effect on 1 July 2015. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of 0.9135% (2019: 0.85370%) is applied to property valuations to determine assessment rates. Rebates of 15% (2019: 15%) are granted to residential and state property owners.

Rates are levied on an annual basis with the final date for payment being Tuesday, 30 June 2020 (Sunday, 30 June 2019). Interest at prime plus 0.833% per annum (2019: 0.833%) and a collection fee of 0.833% (2019: 0.833%), is levied on rates outstanding two months after due date. Interest on arrears of 10% per year.

The new general valuation will be implemented on 01 July 2021.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>25. Government grants and subsidies</b>		
<b>Operating grants</b>		
Financial management grant	2 655 264	2 215 000
Municipal system improvement grant	-	2 583 450
Local government sector education and training authority grant	288 941	326 297
Equitable share	172 093 640	154 338 292
Expanded public works programme grant	2 879 000	2 006 001
Municipal disaster relief fund grant	445 020	-
GDSM contribution - Covid 19	400 000	-
	<b>178 761 865</b>	<b>161 469 040</b>
<b>Capital grants</b>		
Regional bulk infrastructure grant	829 671	-
Water services infrastructure grant	54 708 962	30 000 000
Municipal infrastructure grant	50 370 423	47 567 112
Intergrated national electrification programme	9 791 426	7 108 743
Municipal infrastructure grant - PMU	2 339 577	-
	<b>118 040 059</b>	<b>84 675 855</b>
	<b>296 801 924</b>	<b>246 144 895</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies recognized:		
Conditional grants received	124 708 284	91 806 603
Unconditional grants received	172 093 640	154 338 292
	<b>296 801 924</b>	<b>246 144 895</b>
<b>Water Services Infrastructure Grant</b>		
Current-year receipts	55 000 000	30 000 000
Conditions met - transferred to revenue	(54 708 962)	(30 000 000)
	<b>291 038</b>	<b>-</b>
Water services unfastructure grant as in the case of INEP, is assisting municipalities to improve water networks as to be able to receive and distribute clean water water to the communities. This grant cover the most basic need for all namely water for all residents within a demarcated area. All grants mentioned , will annually contribute to the economic well being of the nation and the municipal area by creating job oppurtunities.		
<b>Financial management grant</b>		
Current-year receipts	2 680 000	2 215 000
Conditions met - transferred to revenue	(2 655 264)	(2 215 000)
	<b>24 736</b>	<b>-</b>
The purpose of the FMG is to promote and support municipal financial management reforms and assist municipalities with the implementation of the MFMA.		
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	1 518 438	-
Current-year receipts	50 370 423	51 669 000
Conditions met - transferred to revenue	(50 370 423)	(50 150 562)

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>25. Government grants and subsidies (continued)</b>		
Roll over not approved deducted from equitable share	(1 518 438)	-
	-	<b>1 518 438</b>

The Municipal infrastructure grant is aimed at providing all members of the communities in South Africa, especially the poorest of the poor with basic services that need capital investment. The MIG programme is a key part of driven programmes to alleviate poverty and assist in the upliftment of basic humanity. The programme also create opportunities for economic development as well as employment.

### Equitable share

Equitable share allocated	176 563 282	154 338 293
Conditions met - transferred to revenue	(172 093 641)	(154 338 293)
Roll over not approved - MIG	(1 518 438)	-
Roll over not approved - INEP	(2 951 203)	-
	-	-

In terms of the constitution, the Equitable share grant is used to subsidise the provision of basic services to the indigent community members.

### Expanded Public Works Programme Grant

Current-year receipts	2 879 000	2 006 000
Conditions met - transferred to revenue	(2 879 000)	(2 006 000)
	-	-

The Extended Public works programme (EPWP) is one of Government's key programmes aimed at alleviating poverty through a temporary work programme. This is a nationwide programme covering all spheres of Government. The programme assist in providing an important avenue for labour absorption and improve the income to poor households on a short term basis.

### Municipal System Improvement Grant

Current-year receipts	-	2 583 450
Conditions met - transferred to revenue	-	(2 583 450)
	-	-

The Municipal Systems Improvement Grant (MSIG) is a conditional grant directed to selected Local and District municipalities. The purpose of the grant is to support municipalities in implementing new systems as provided in the Municipal Systems Act, Municipal Structures Act and other related local government policy and legislation so that they can carry mandated functions effectively.

### Sport and Recreation Grant - National Lottery

Balance unspent at beginning of year	700 000	700 000
--------------------------------------	---------	---------

The grant has been provided by the National lottery in 2015/2016 to fund the refurbishment of the public swimmingpool. The grant has not been utilised as the swimmingpool cost regarding the state of repair exceed the available grant funds.

### Regional bulk infrastructure grant

Current-year receipts	16 300 000	-
Conditions met - transferred to revenue	(829 671)	-
	<b>15 470 329</b>	-

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 25. Government grants and subsidies (continued)

Regional bulk infrastructure grant's main aim is to improve a specific region or demarcated area with bulk water supply infrastructure and will concentrate on ceating and maintenance of dams and resevoirs which improve storage of water to be pumped to the water networks serviced by the Water services infratructure grant for distribution to households within a municipal area.

#### Local government sector education and training authority grant

Current-year receipts	288 941	326 297
Conditions met - transferred to revenue	(288 941)	(326 297)
	-	-

Municipality to insert/review description.

#### Municipal disaster relief fund grant

Current-year receipts	447 000	-
Conditions met - transferred to revenue	(445 020)	-
	<b>1 980</b>	-

The Government through the municipal disaster relief grant as well as contribution from the Gert Sibande district has contributed to programmes to assist the communities during the lockdown of South africa in the time of Covid 19 pandameic that was declared in South Africa end of March 2020. This contributions was intoduced mainly to service operational needs although capital expenditure to assist communities that needed urgent water and sanitation services to be made available.

#### GDSM contribution - Covid 19

Current-year receipts	400 000	-
Conditions met - transferred to revenue	(400 000)	-
	-	-

The Government through the municipal disaster relief grant as well as contribution from the Gert Sibande district has contributed to programmes to assist the communities during the lockdown of South africa in the time of Covid 19 pandameic that was declared in South Africa end of March 2020. This contributions was intoduced mainly to service operational needs although capital expenditure to assist communities that needed urgent water and sanitation services to be made available.

#### Municipal infrastructure grant - PMU

Current-year receipts	2 339 577	-
Conditions met - transferred to revenue	(2 339 577)	-
	-	-

Municipality to insert/review description.

#### Integrated National Eletrification Programme Grant

Balance unspent at beginning of year	2 951 203	15 000
Current-year receipts	10 000 000	10 075 000
Conditions met - transferred to revenue	(9 791 426)	(7 123 797)
Roll over not approved deducted from equitable share	(2 951 203)	(15 000)
	<b>208 574</b>	<b>2 951 203</b>

The Intergrated national electrification grant aim to assist in the improvement of the national electrcification networks and assist in the improvement of bulk infrastructure to assist all households, especially the poor ,within South Africa to enjoy basic services.



# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>26. Donations received</b>		
Library books	2 675 968	10 124 629

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>27. Employee related costs</b>		
Acting allowances	1 632 350	2 215 635
Basic	121 156 209	106 341 087
Bonus	10 543 649	7 771 603
Car allowance	9 676 504	9 627 260
Cell and data allowances	131 792	87 663
Group Insurance	2 137 963	1 849 692
Housing benefits and allowances	1 337 789	1 352 781
Leave expense	3 752 566	7 719 578
Long service awards	980 977	764 835
Medical aid company contributions	11 546 185	10 301 124
Other payroll levies	65 939	59 927
Overtime payments	24 618 853	22 908 577
Pension Fund	23 999 656	21 333 472
Post retirement medical aid	2 078 223	1 602 430
SDL	1 579 634	1 727 813
Shift and standby allowance	10 476 309	7 833 576
UIF	1 062 186	1 021 356
Ward committees	2 191 000	2 204 347
Workmens compensation fund	998 171	814 150
	<b>229 965 955</b>	<b>207 536 906</b>

### Remuneration of municipal manager

Annual Remuneration	1 169 343	1 153 179
Car Allowance	96 000	117 226
Contributions to UIF, Medical and Pension Funds	212 266	96 389
	<b>1 477 609</b>	<b>1 366 794</b>

### Remuneration of Chief Finance Officer

Annual Remuneration	930 000	903 227
Car Allowance	72 000	72 000
Contributions to UIF, Medical and Pension Funds	244 431	234 558
Acting allowance	2 546	8 486
	<b>1 248 977</b>	<b>1 218 271</b>

### Remuneration of the Director - Corporate Services

Annual Remuneration	803 637	27 003
Car Allowance	180 000	-
Contributions to UIF, Medical and Pension Funds	200 348	-
	<b>1 183 985</b>	<b>27 003</b>

### Remuneration of the Director - Community and Health

Annual Remuneration	32 193	347 549
Car Allowance	8 000	65 000
Contributions to UIF, Medical and Pension Funds	11 293	77 204
Acting Allowance	-	48 626
	<b>51 486</b>	<b>538 379</b>

### Remuneration of the Director - Technical Services

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>27. Employee related costs (continued)</b>		
Annual Remuneration	456 735	339 352
Car Allowance	90 000	75 000
Contributions to UIF, Medical and Pension Funds	83 596	76 017
	<b>630 331</b>	<b>490 369</b>
<b>Remuneration of the Director - Planning and Development</b>		
Annual Remuneration	834 503	202 442
Car Allowance	96 000	24 000
Contributions to UIF, Medical and Pension Funds	177 849	43 527
	<b>1 108 352</b>	<b>269 969</b>
<b>Employee related costs</b>	<b>229 965 995</b>	<b>207 539 906</b>
<b>Remuneration of directors</b>	<b>5 700 700</b>	<b>3 907 785</b>
	<b>235 666 695</b>	<b>211 447 691</b>
<b>28. Remuneration of councillors</b>		
Executive Major	938 250	903 872
Chief Whip and Member of Mayoral Committee	3 573 935	3 436 257
Speaker	759 478	731 976
Councillors	10 379 680	10 073 127
	<b>15 651 343</b>	<b>15 145 232</b>
<b>29. Repairs and Maintenance</b>		
Plant, Machinery and Equipment	4 170 906	1 634 062
Motor Vehicles	3 347 085	2 742 663
IT Equipment	4 509	-
Buildings	2 544 127	1 790 236
Electrical	14 556 117	12 784 857
Roads	4 082 704	4 687 910
Sanitation	1 197 431	3 130 034
Water Supply	11 880 910	1 211 951
	<b>41 783 789</b>	<b>27 981 713</b>
<b>30. Finance costs</b>		
Trade and other payables	25 144 964	26 080 040
Finance leases	34 054	-
Land fill site	-	5 171 884
Employee benefits	5 746 394	5 989 061
	<b>30 925 412</b>	<b>37 240 985</b>
<b>31. Debt impairment</b>		
Consumer debtors	68 184 301	99 700 431
Traffic fines	5 017 736	5 731 393
	<b>73 202 037</b>	<b>105 431 824</b>

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>32. Bulk purchases</b>		
Electricity	171 271 321	273 228 250
Water	45 265 046	251 020 425
	<b>216 536 367</b>	<b>524 248 675</b>
<b>33. Contracted services</b>		
<b>Outsourced Services</b>		
Organizational	-	567 977
Debt Collectors	5 383 899	-
Accounting services	6 177 231	7 025 058
Land Fill Sites	2 148 110	10 193 298
Prepaid electricity - Commission	5 409 831	3 323 199
Maintenance of equipment	40 538	1 430 276
Security services	23 660 704	19 307 354
Electrical	4 075 343	3 950 280
<b>Consultants and Professional Services</b>		
Infrastructure and Planning	4 221 131	1 886 142
Legal Cost	6 975 811	1 520 347
	<b>58 092 598</b>	<b>49 203 931</b>
<b>34. General expenses</b>		
Advertising	833 898	531 544
Auditors remuneration	5 368 939	9 270 532
Bank charges	2 560 512	2 268 455
Cleaning	674 458	508 856
Communication and stationery	3 588 117	3 330 150
Community support	116 739	1 761 762
Consulting and professional fees	5 279 870	3 775 525
Conferences and seminars	467 405	825 433
Fuel and oil	7 873 212	6 608 460
Hire	1 071 796	1 599 500
Insurance	3 618 464	4 237 607
Internal Billing	663 494	-
IT expenses	3 107 261	6 409 240
Protective clothing	1 231 485	1 122 741
Software expenses	353 862	3 020 629
Staff welfare	1 234 386	307 225
Subscriptions and membership fees	2 459 202	1 861 264
Training	110 033	-
Travel - local	6 790 524	25 317 035
Materials - Covid-19	371 925	100 844
	<b>47 775 582</b>	<b>72 856 802</b>
<b>35. Auditors' remuneration</b>		
Fees	5 368 939	9 270 532

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>36. Cash generated from (used in) operations</b>		
Surplus (deficit)	1 400 857	(406 407 849)
<b>Adjustments for:</b>		
Depreciation and amortisation	125 006 552	125 037 190
Gain on sale of assets and liabilities	11 327 569	5 563 832
Fair value adjustments	(819 502)	(4 005 640)
Finance costs - Finance leases	34 054	-
Impairment loss (reversal)	4 542 627	(1 262 867)
Debt impairment	73 202 037	105 431 824
Bad debts written off	-	(1 422 309)
Movements in operating lease assets and accruals	-	5 171 884
Movements in retirement benefit assets and liabilities	(2 145 971)	19 032 721
Movements in provisions	(2 091 774)	-
<b>Changes in working capital:</b>		
Inventories	(7 457 122)	(3 452 492)
Receivables from exchange transactions	(4 931 218)	(75 992 287)
Consumer debtors	(73 202 037)	(3 183 642)
Other receivables from non-exchange transactions	528 044	(3 183 642)
Payables from exchange transactions	51 339 669	85 403 840
VAT	(32 644 064)	66 768 063
Taxes and transfers payable (non-exchange)	-	3 517 348
Unspent conditional grants and receipts	11 527 017	541 765
Consumer deposits	813 433	-
	<b>156 430 171</b>	<b>(82 442 261)</b>

### 37. Financial instruments disclosure

#### Categories of financial instruments

##### 2020

#### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	82 921 830	82 921 830
Trade and other receivables from non-exchange transactions	-	29 247 213	29 247 213
Cash and cash equivalents	26 208 010	-	26 208 010
	<b>26 208 010</b>	<b>112 169 043</b>	<b>138 377 053</b>

#### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	1 125 397 178	1 125 397 178
Consumer deposits	16 933 577	16 933 577
Employee benefit obligation	62 613 000	62 613 000
Unspent conditional grants and receipts	16 696 658	16 696 658
Finance lease obligation	3 796 786	3 796 786
	<b>1 225 437 199</b>	<b>1 225 437 199</b>

##### 2019

#### Financial assets

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019	
<b>37. Financial instruments disclosure (continued)</b>			
	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	78 231 234	78 231 234
Trade and other receivables from non-exchange transactions	-	29 775 257	29 775 257
Cash and cash equivalents	3 275 834	-	3 275 834
	<b>3 275 834</b>	<b>108 006 491</b>	<b>111 282 325</b>
<b>Financial liabilities</b>			
		At amortised cost	Total
Trade and other payables from exchange transactions		1 050 663 717	1 050 663 717
Consumer deposits		16 120 144	16 120 144
Employee benefit obligation		64 758 971	64 758 971
Unconditional grants and receipts		5 169 641	5 169 641
		<b>1 136 712 473</b>	<b>1 136 712 473</b>
<b>38. Commitments</b>			
<b>Authorised capital expenditure</b>			
<b>Already contracted for but not provided for</b>			
• Electrical		-	6 041 006
• Roads		12 071 512	7 175 683
• Sanitation		29 660 666	22 855 964
• Community		2 844 393	1 264 073
• Water supply		10 495 643	-
		<b>55 072 214</b>	<b>37 336 726</b>
<b>Authorised operational expenditure</b>			
<b>Already contracted for but not provided for</b>			
• Consulting and Professional Fees		10 030 501	4 397 871
• Security (Guarding of municipal property)		31 434 829	54 438 955
• Travel - Local		224 476	647 989
• Supply and delivery		18 763 699	-
• Repairs and maintenance		9 287 876	-
		<b>69 741 381</b>	<b>59 484 815</b>
<b>Total commitments</b>			
<b>Total commitments</b>			
Authorised capital expenditure		53 670 534	37 336 726
Authorised operational expenditure		69 741 381	59 484 815
		<b>123 411 915</b>	<b>96 821 541</b>

This committed expenditure relates to plant and equipment and will be financed by available National grants, bank facilities, retained surpluses, existing cash resources, funds internally generated.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 39. Contingencies

#### Contingent liabilities

##### Issue under consideration

This issue involves land that was earmarked for business and churches but was later disposed of or allocated in a manner which was not in line with the development and the agreement reached in 1995. NEWCHO as the developer is intending to sue the Municipality for damages. The Municipality was served with summons in 2015.

An Employee of the Municipality was electrocuted while on duty on the 27th of May 2011. He is claiming damages alleging that he was injured as a result of the sole negligence of the Municipality.

Action was taken by SAMWU on behalf of Hlophe and others against the municipality for losses due to unlawful variation of the terms of the employment in 2011. The municipality is opposing the claims and pleadings are currently still exchanged, the matter has not been set down for a trial date.

Potential liability	Status	Attorney
6 483 579	Summons were issued Notice of intention to defend was filed Plea was filed Discovery has been done The matter is at the pre-trial stage The attorneys of NEWCHO have submitted a settlement proposal which has been discussed and the amount was reduced to R 1 Million as per the letter dated 02 July 2020. Then on the 21 of July 2020 the Municipality has further proposed the settlement of R 500 000 and we are still awaiting the response thereto.	TMN Kgomo and Associates
1 220 500	Summons were issued	TMN Kgomo and Associates
800 000	This matter is still pending in the labour Court. However an information was supplied to our attorneys that we were paying the employees 1.5 prior to 2011 and from 2013. Then further information will be provided on the amount outstanding for that period. A meeting has been held on the 13th of November 2014 with a view to have an amicable solution on this matter. As the Municipality we need to do a calculation. A detailed report will be presented to Council on this matter.	Sefalafala Attorneys

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 39. Contingencies (continued)

The Plaintiff is suing the Municipality together with the Minister of Police for pain and suffering as a result of injuries sustained when he was detained in custody as a result of the case of theft of the machine of the Municipality.	6 000 000	Summons were issued	Mhlongo Khumalo Attorneys
This matter comes from the procurement processes on debt collection wherein the Plaintiff submitted a tender for that service. The Plaintiff realised that they were appointed after seeing their name on the website as part of those who were awarded the tender. They are suing the Municipality for future loss of income.	50 000 000	The notice of intention to defend has already been filed and the matter is pending in the High Court.	Julie Mahommed Attorneys
This matter is alleged breach of contract by Altimax in that the Municipality is failing or has failed to pay outstanding payment for services rendered in 2015.	2 739 639	Summons were issued	TMN Kgomo and Associates
A vehicle belonging to the resident was involved in the accident as a result of the negligence of the Municipality not to mark the area where it was working with the red tape in 2014.	162 385	Summons were issued	TMN Kgomo and Associates
The employees of the Municipality went on a protest which turned violent and there was damage to property of the Municipality in 2013. As result there were employees who were arrested for that. Some of the employees were withdrawn from the case and others were acquitted. Then one of the employees is suing the Municipality for unlawful arrest.	65 000	Summons were issued and the matter is defended	TMN Kgomo and Associates
Children were playing in Thusiville and one of them was electrocuted by the electricity line in 2015 and he suffered damages in the form of the pain and suffering and future loss of income.	25 000 000	Summons were issued	Mohlala Attorneys
A resident's motor vehicle was involved in an accident in 2014 and as a result the resident suffered damages.	600 000	Summons were issued	Mohlala Attorneys
The Municipality was served with summons from the Department of Water and Sanitation suing the Municipality for the payment of R 184 124 516.50 for the outstanding amount in the supply of bulk water since 2002.	184 124 517	Summons were issued	TMN Kgomo and Associates
The Municipality is sued for negligence as a result of not maintaining the electricity infrastructure which resulted in the damage of properties of the residents when the electricity was switched on in 2010.	311 467	Summons were issued	TMN Kgomo and Associates



# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 39. Contingencies (continued)

This is the application for the review of the Contract which was entered into in terms of regulation 32 of the SCM regulation of 2005. The Respondents have indicated an intention to lodge a counter claim but no summons have been issued yet.

47 500 000 Notice of motion was issued by the Municipality. Mhlongo Khumalo Attorneys

The Municipality is sued for the damage caused on the Telkom lines when the employees were fixing the damages water pipes.

230 423 Summons were issued Mohlala Attorneys

The Plaintiff is suing the Municipality for the damages caused on his vehicle as a result of hitting the pothole on the Municipal road.

10 560 Summons were issued The summons were issued against the Municipality and the matter was referred to our insurance which repudiated the claim because it was lodged very late. The matter is defended in person because the claimed amount is low versus the legal costs None

Damages to vehicle to due to potholes in the road.

83 800 Summons were issued Mhlongo Khumalo Attorneys

The Municipality is sued for the amount outstanding after the contract on the provision of security services expired.

8 778 153 Summons were issued Mhlongo Khumalo Attorneys

The Municipality is sued for the amount outstanding after the contract on the provision of security services expired.

4 539 707 Notice of intention to defend was filed Mhlongo Khumalo Attorneys

**338 649 730**

### Contingent assets

#### Issue under consideration

The service providers did a shoddy work in the construction of the water reservoir which resulted in the reservoir to burst out. At that stage the service providers had already been paid a certain sum of money for the job. Municipality is claiming back the money already paid to the service providers (consultants and the contractor).

Potential liability	Status	Attorney
5 687 831	Summons were issued by the Municipality.	Gildenhuys Malatjie Attorneys

**5 687 831**

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 40. Related parties

#### Members of key management

Municipal Manager & Accounting Officer - Appointed 1 November 2018	GJ Majola
Chief Financial Officer - Appointed 1 August 2016	MM Matsheka - on suspension
Acting CFO - 4 September 2019 to 17 March 2020	PH Mapheto
Acting CFO - 12 March 2020 to 12 June 2020	SJF Gates
Acting CFO - From 1 June 2020	SM Phiri
Speaker	Cllr. MP Nkosi
Chief Whip	Cllr. PE Mashiane
MMC - Corporate Services	Cllr. JA Bal
MMC - Finance	Cllr. BJ Mkhaliphi
MMC - Technical Services	Cllr. EC Msezane
MMC - Community and Social Services	Cllr. TA Mnisi
MMC - Planning & Economic Development	Cllr. JS Bongwe
Director - Corporate Services	Mr. PS Mabuza
Director - Planning and Economic Development	Mr. D Maake
Director - Technical Services	Mr. FR Ntekele
Director - Community and Social Services	Mr. SI Malaza
Councillors	Cllr. TC Motha
	Cllr. Z Breydenbach
	Cllr. GS Greyling
	Cllr. BI Jiyane
	Cllr. FJ Mabasa
	Cllr. BI Mabuza
	Cllr. ME Madonsela
	Cllr. LS Mahlangu
	Cllr. LA Maseko
	Cllr. MZM Mashiane
	Cllr. VV Mazibuko
	Cllr. LD Mdebele
	Cllr. TJ Madlala
	Cllr. PF Mloyi
	Cllr. BNN Ndlovu
	Cllr. DM Nkambule
	Cllr. T Nkosi
	Cllr. ZJ Nkosi
	Cllr. JJ Nzimande
	Cllr. PT Sibeko
	Cllr. BJM Sithole
	Cllr. HF Swart
	Cllr. DJ Litau
	Cllr. MR Yende
	Cllr. ZK Dhludhlu
	Cllr. JDA Blignaut
	Cllr. MJ Blose
	Cllr. LNV Kubheka
	Cllr. D Mabunda
	Cllr. NH Magagula
	Cllr. M Sibeko

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 40. Related parties (continued)

#### Remuneration of management

#### Management class: Mayoral Committee Members

#### 2020

Name	Annual Remuneration	Car Allowance	Contributions to UIF, Medical Aid and Pension Fund	Cell Phone Allowance	Acting Allowance	Total
GJ Majola	1 169 343	96 000	210 482	-	-	1 475 825
BJ Mkhaliphi	582 952	223 463	87 435	44 400	-	938 250
MMP Matsheka	930 000	72 000	244 431	-	2 546	1 248 977
MP Nkosi	466 355	178 770	69 953	44 400	-	759 478
PE Mashiane	437 209	167 597	65 581	44 400	-	714 787
JA Bal	437 209	167 597	65 581	44 400	-	714 787
EC Msezane	437 209	167 597	65 581	44 400	-	714 787
TA Mnisi	413 993	167 597	88 797	44 400	-	714 787
JS Bongwe	437 209	167 597	65 581	44 400	-	714 787
	<b>5 311 479</b>	<b>1 408 218</b>	<b>963 422</b>	<b>310 800</b>	<b>2 546</b>	<b>7 996 465</b>

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 40. Related parties (continued)

2019

Name	Annual Remuneration	Car Allowance	Contributions to UIF, Medical Aid and Pension Fund	Cell Phone Allowance	Acting Allowance	Leave Pay	Total
GJ Majola	798 632	64 000	84 165	-	-	-	946 797
DI Maluleke - Acting MM 01/10/2017 to 31/08/2018	354 547	53 226	10 439	-	21 681	82 190	522 083
MMP Matsheka	703 227	72 000	232 773	-	8 486	-	1 016 486
BJ Mkhaliphi	560 525	214 868	84 079	44 400	-	-	903 872
D Maake	404 883	48 000	86 161	-	-	-	539 044
MP Nkosi	440 794	171 894	74 887	44 400	-	-	731 975
PE Mashiane	420 393	161 151	63 059	44 400	-	-	689 003
JA Bal	411 635	161 151	63 059	44 400	-	-	680 245
EC Msezane	420 393	161 151	63 059	44 400	-	-	689 003
TA Mnisi	398 152	161 151	85 300	44 400	-	-	689 003
JS Bongwe	420 393	161 151	63 059	44 400	-	-	689 003
	<b>5 333 574</b>	<b>1 429 743</b>	<b>910 040</b>	<b>310 800</b>	<b>30 167</b>	<b>82 190</b>	<b>8 096 514</b>

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 40. Related parties (continued)

#### Management class: Councillors

#### 2020

Name	Annual Remuneration	Car Allowance	Contributions to UIF, Medical Aid and Pension Fund	Cell Phone Allowance	Total
TC Motha	236 750	90 754	35 513	44 400	407 417
Z Breydenbach	184 480	70 718	27 672	44 400	327 270
GS Greyling	184 480	70 718	27 672	44 400	327 270
BI Jiyane	184 480	70 718	27 672	44 400	327 270
FJ Mabasa	184 480	70 718	27 672	44 400	327 270
BI Mabuza	184 480	70 718	27 672	44 400	327 270
ME Madonsela	136 381	70 726	75 763	44 400	327 270
LS Mahlangu	184 480	70 718	27 672	44 400	327 270
LA Maseko	184 480	70 718	27 672	44 400	327 270
MZM Mashiane	184 480	70 718	27 672	44 400	327 270
VV Mazibuko	184 480	70 718	27 672	44 400	327 270
LD Mdebele	236 750	90 754	35 513	44 400	407 417
TJ Madlala	236 750	90 754	35 513	44 400	407 417
PF Mloyi	184 480	70 718	27 672	44 400	327 270
BNN Ndlovu	146 358	70 718	65 794	44 400	327 270
DM Nkambule	184 480	70 718	27 672	44 400	327 270
T Nkosi	184 480	70 718	27 672	44 400	327 270
ZJ Nkosi	236 750	90 754	35 513	44 400	407 417
JJ Nzimande	184 480	70 718	27 672	44 400	327 270
PT Sibeko	236 750	90 754	35 513	44 400	407 417
BJM Sithole	184 480	70 718	27 672	44 400	327 270
HF Swart	184 480	70 718	27 672	44 400	327 270
DJ Litau	200 144	90 754	72 119	44 400	407 417
MR Yende	184 480	70 718	27 672	44 400	327 270
ZK Dhludhlu	184 480	70 718	27 672	44 400	327 270
JDA Blignaut	124 523	70 718	87 630	44 400	327 271
MJ Blose	184 480	70 718	27 672	44 400	327 270
LVN Kubheka	184 480	70 718	27 672	44 400	327 270
D Mabunda	184 480	70 718	27 672	44 400	327 270
NH Magagula	236 750	90 754	35 513	44 400	407 417
M Sibeko	163 652	62 733	24 548	39 387	290 320
	<b>5 881 158</b>	<b>2 324 533</b>	<b>1 092 372</b>	<b>1 371 387</b>	<b>10 669 450</b>

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 40. Related parties (continued)

2019

Name	Annual Remuneration	Car Allowance	Contributions to UIF, Medical Aid and Pension Fund	Cell Phone Allowance	Total
TC Motha	227 645	87 264	34 147	44 400	393 456
Z Breydenbach	177 385	67 998	26 608	44 400	316 391
GS Greyling	177 385	67 998	26 608	44 400	316 391
BI Jiyane	177 385	67 998	26 608	44 400	316 391
FJ Mabasa	177 385	67 998	26 608	44 400	316 391
BI Mabuza	177 385	67 998	26 608	44 400	316 391
ME Madonsela	131 754	67 998	72 239	44 400	316 391
LS Mahlangu	177 385	67 998	26 608	44 400	316 391
LA Maseko	173 689	67 998	26 608	44 400	312 695
MZM Mashiane	177 385	67 998	26 608	44 400	316 391
VV Mazibuko	177 385	67 998	26 608	44 400	316 391
LD Mdebele	227 645	87 264	34 147	44 400	393 456
TJ Madlala	227 645	87 264	34 147	44 400	393 456
PF Moloyi	173 689	67 998	26 608	44 400	312 695
BNN Ndlovu	139 517	67 998	61 538	44 400	313 453
DM Nkambule	177 385	67 998	26 608	44 400	316 391
T Nkosi	177 385	67 998	26 608	44 400	316 391
ZJ Nkosi	227 645	87 264	34 147	44 400	393 456
JJ Nzimande	177 385	67 998	26 608	44 400	316 391
PT Sibeko	216 596	87 264	46 396	44 400	394 656
BJM Sithole	195 953	75 115	29 721	44 400	345 189
HF Swart	177 385	67 998	26 608	44 400	316 391
DJ Litau	194 822	85 658	61 935	44 400	386 815
MR Yende	117 752	46 555	18 217	35 348	217 872
ZK Dhludhlu	39 419	15 111	5 913	9 867	70 310
JDA Blignaut	120 203	67 998	81 281	44 400	313 882
MJ Blose	177 385	67 998	26 608	44 400	316 391
LNV Kubheka	177 385	67 998	26 608	44 400	316 391
D Mabunda	177 385	67 998	26 608	44 400	316 391
NH Magagula	209 806	80 146	31 471	44 400	365 823
M Sibiyi - Resigned - 12 December 2018	85 281	32 691	12 792	13 800	144 564
NE Nkosi - Deceased - 23 February 2019	118 256	45 332	17 738	29 600	210 926
	<b>5 488 092</b>	<b>2 176 888</b>	<b>1 028 165</b>	<b>1 331 815</b>	<b>10 024 960</b>

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 41. Risk management

#### Financial risk management

The municipality's is expose to a variety of financial risks: market risk, fair value interest rate risk, cash flow interest rate risk and price risk, credit risk and liquidity risk, but the exposure is limited to the the municipality's management thereof. Due to largely, "non-trading nature" of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Budget and Treasury Office monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity risk. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit, responsible for initiating a control framework and monitoring and responding to potential risk, reports monthly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function. For the year under review the municipaplity did not have a fully fuctional internal audit committee.

#### Liquidity risk

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met. The tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
• Payables from exchange transactions	1 125 397 178	-	-	-
• Finance lease obligation	1 279 349	-	2 517 437	-
At 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
• Payables from exchange transactions	1 050 663 717	-	-	-

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 41. Risk management (continued)

#### Credit risk

Credit risk is the risk of financial loss to the Municipality or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Municipality from customers and investment securities. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties are monitored regularly.

Each class of financial instrument is disclosed separately. Maximum exposure to credit risk not covered by collateral is specified. Financial instruments covered by collateral are specified. Credit risk consists mainly of cash deposits, cash equivalents. The municipality limits its counterparty exposures from its short-term investments (financial assets that are neither past due nor impaired) by only dealing with well-established financial institutions short term credit rating of BBB and long-term credit rating of AA- and higher at an International accredited credit rating agency. The municipality's exposure is continuously monitored and the aggregate value of transactions concluded is spread amongst different types of approved investments and institutions, in accordance with its investment policy. Consequently, the municipality is not exposure to any significant credit risk. Receivables and Other Debtors are individually evaluated annually at statement of financial position date for impairment or discounting. Trade and Other Receivables are amounts owed by consumers and are presented net of impairment losses. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. There were material changes in the exposure to credit risk and its objectives, policies and processes for managing and measuring the risk during the year under review. The municipality's maximum exposure to credit risk is represented by the carrying value of each financial asset in the Statement of Financial Position, without taking into account the value of any collateral obtained. The municipality has no significant concentration of credit risk, and is not concentrated in any particular sector or geographical area. The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables

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

Financial instrument	2020	2019
Receivables from exchange transactions	82 921 830	78 231 234
Receivables from non-exchange transactions	29 247 213	29 775 257
Bank balances and cash	26 208 010	3 275 834

#### Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Municipality's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return. The maximum exposure to cash flow and fair value risk, price risk and foreign currency risk.

#### Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position either as available for sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the municipality diversifies its portfolio. Diversification of the portfolio is done in accordance /with the limits set by the municipality. The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

Surplus for the year would increase/decrease as a result of gains/losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains/losses on equity securities classified as available for sale.



# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 42. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 1 483 709 416 and that the municipality's total liabilities exceed its assets by R 1 483 709 416.

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

#### Statement of Financial position

Debtors management, with regard to debtor's collection it takes the Municipality 575 days to collect arrear debt, and whilst the collection rate is below the norm of 95% currently sitting at Collection rate 76%.

#### Liquidity management

The Municipality cash on hand cannot cover the daily operation in the short term as the Cash/Cost coverage ratio reflect 0 months

Current ratio 0.27

The Municipalities current assets are not sufficient to settle its current liabilities as our coverage is less than the norm of 1.5 – 2:1 as it indicates 0.27: 1

The Municipal creditors payment period 992 days which still indicate that the it can't pay its creditors within 30 days

Although the financial indicators reflect that the Municipality is under financial distress, the following are in place to aid the operation of the Municipality in next 12 months

Approved budget for the Medium Term Expenditure Revenue Framework ending 2023

Approved Division of Revenue Act with estimated allocation of equitable share and capital the next 3 years

The developed financial recovery plan which is monitored on a monthly basis

### 43. Events after the reporting date

No events after the reporting date have been identified.

### 44. Unauthorised expenditure

Opening balance as previously reported	901 481 629	580 501 703
<b>Opening balance as restated</b>	<b>901 481 629</b>	<b>580 501 703</b>
Finance and administration	30 678 023	34 411 967
Sport and recreation	1 679 570	5 516 190
Public safety	3 631 497	18 426 812
Community and social services	-	17 282 198
Electricity	-	39 464 640
Water management	40 942 782	205 878 119
Waste water management	19 869 866	-
Waste management	3 929 063	-
Road transport	3 237 454	-
Other	4 828 114	-
<b>Closing balance</b>	<b>1 010 277 998</b>	<b>901 481 629</b>

The Municipality is currently investigation the unauthorised expenditure, reports have served before MPAC which then assigned the Disciplinary board to perform the investigation

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>45. Fruitless and wasteful expenditure</b>		
Opening balance as previously reported	229 974 958	148 143 874
<b>Opening balance as restated</b>	<b>229 974 958</b>	<b>148 143 874</b>
Interest and penalties on arrear amount - Eskom	19 003 057	61 103 582
Interest and penalties on arrear amount - DWS	-	12 130 993
Interest and penalties on arrear amount - Auditor General	203 289	106 318
Interest and penalties on arrear amount - DCSSL	4 932 384	8 398 013
Interest and penalties on arrear amount - PRODIBA	3 527	-
Interest and penalties on arrear amount - SARS VAT	354 889	-
Interest and penalties on arrear amount - SARS PAYE	754 628	-
Interest and penalties on arrear amount - Working on fire	-	92 178
<b>Closing balance</b>	<b>255 226 732</b>	<b>229 974 958</b>

The Municipality is currently investigation the unauthorised expenditure, reports have served before MPAC which then assigned the Disciplinary board to perform the investigation

### 46. Irregular expenditure

Opening balance	588 514 036	511 856 336
<b>Opening balance as restated</b>	<b>588 514 036</b>	<b>511 856 336</b>
Current year expenditure	2 520 219	45 071 580
Identified in the current year for prior periods	-	31 586 120
<b>Closing balance</b>	<b>591 034 255</b>	<b>588 514 036</b>

The Municipality is currently investigation the unauthorised expenditure, reports have served before MPAC which then assigned the Disciplinary board to perform the investigation

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>46. Irregular expenditure (continued)</b>		
<b>Details of irregular expenditure - Current year</b>		
<b>Entity</b>	<b>Reason for irregular expense</b>	
Highveld Tribute	Supplier not registered with CSD	3 565
Highveld Tribute	Water and light account, CSD, MBD 4, and Tax clearance not attached	2 323
Multi Choice	Water and light account, CSD, MBD 4, and Tax clearance not attached	17 576
Nkosivile Trading	Water and light account, CSD, MBD 4, and Tax clearance not attached	22 400
VOC FM	Water and light account, Tax Clearance, CSD, and Declaration form not attached	6 000
VOC FM	Water and light account, Tax Clearance, CSD, and Declaration form not attached	6 000
CO and CV PTY LTED	None compliant with SCM Regulations, Deviations not approved	199 500
CO and CV PTY LTED	None compliant with SCM Regulations, Deviations not approved	199 950
Majane and Son	None compliance with PPPFA Evaluation criteria	165 830
Transport		
Ksukamaphepha Trading and Projects	Not following the supply chain processes	74 900
Mdaka Legacy	Returnables not compliant with SCM Regulation	108 625
CO and CV PTY LTED	None compliant with SCM Regulations, Deviations not approved	165 396
ML Verecity	None compliant with SCM Regulations, Deviations not approved	84 700
Raphela General	None compliant with SCM Regulations, Deviations not approved	172 132
Suppliers		
KFC Engineering & Industrial Suppliers	None compliant with SCM Regulations, Deviations not approved	50 025
DEM-SAME Technologies and supply service	None compliant with SCM Regulations, Deviations not approved	184 000
NMB Mvuleni Pty Ltd	None compliance with SCM Regulations	84 975
Longade Pty Ltd	None compliance with SCM Regulations	187 000
Interlayed	None compliance with SCM Regulations	175 560
Yolo Investments Holdings	None compliance with SCM Regulations	63 550
Yolo Investments Holdings	None compliance with SCM Regulations	32 410
Nonophil Legacy	None compliance with SCM Regulations	198 802
Nonophil Legacy	None compliance with SCM Regulations	185 000
Mkhensani Trading	None compliance with SCM Regulations	130 000

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>47. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Opening balance	-	19 696
Current year subscription / fee	2 140 830	1 957 230
Amount paid - current year	(2 140 830)	(1 976 926)
	-	-

### Audit fees

Opening balance	594 006	315 341
Current year subscription / fee	6 255 615	4 968 805
Interest on late payments	203 289	-
Amount paid - current year	(4 695 185)	(4 690 140)
	<b>2 357 725</b>	<b>594 006</b>

### PAYE and UIF

Current year subscription / fee	33 060 714	31 590 287
Amount paid - current year	(33 060 714)	(31 590 287)
	-	-

### Pension and Medical Aid Deductions

Current year subscription / fee	61 214 020	59 153 479
Amount paid - current year	(61 214 020)	(59 153 479)
	-	-

### Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding for more than 90 days on 30 June 2020.

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
MR Yende	-	65	65
<hr/>			
30 June 2019	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Cllr. P.F. Moloyi	396	11 566	11 962

### Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations any deviation from the Supply Chain Management Policy needs to be approved/condoned by the City Manager and noted by Council. The expenses incurred as listed hereunder have been condoned.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 48. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

Supplier name	Deviation date	Reasons for deviation	Description	Total
Workshop electronics	10/05/2019	Three quotations not obtained	Caribrator of millitron devices. Workshop electronics is the sole manufacturer, supplier and calibrator of Millitron devices.	15 012
Be forever trading	01/06/2019	Three quotations not obtained	Sheepmoor experienced acute water shortages due to the breakdown of borehole pumps prompting the municipality to respond to this emergency call to avoid loss of lives and economic activities coming to a halt	253 000
Zip Zap trading	04/03/2019	Three quotations not obtained	This is an emergency procurement in response to a Landfill site by the municipality. A delay could have resulted to community unrest and protest due to accumulated solid waste leading to a health hazard.	313 880
Isuzu Rothman Motors	26/09/2019	Three quotations not obtained	Servicing of gearbox of Refuse ISUZU Compactor Truck with registration number HFJ 858 MP. Rothman Motors (PTY) Ltd is the only approved dealer to service all Isuzu related motor vehicles in Ermelo (Cost benefit)	24 095
Traffic Signals	06/09/2019	Three quotations not obtained	TSA is the only service provider that installs and repairs traffic lights in Msukaligwa.	58 363
Truvelo	25/06/2019	Three quotations not obtained	Truvelo is the only company that service speed machine (prolaser 4)	4 785
Afritech fire	18/10/2019	Three quotations not obtained	Emergency call to one of the municipal Fire Fighting Trucks with registration number FMZ 490 MP for the repairs of V-Belt to avoid the disruption of service delivery to the community	5 755
Spray air service	23/10/2019	Three quotations not obtained	Spray air services is the only service provider that repairs and services painting machines	9 597
ELB Equipment	15/11/2019	Three quotations not obtained	The newly purchased MST branded Tractor-Loaded-backhoe with registration number JWG 783 MP is still under guarantee so could not be taken to any other agent/dealer other than ELB where the machine was originally purchased to maintain the guarantee.	25 462
Zip Zap trading	04/03/2019	Three quotations not obtained	This is an emergency procurement in response to a Landfill site by the municipality. A delay could have resulted to community unrest and protest due to accumulated solid waste leading to a health hazard.	156 940
Umpuluzi Fire Protection	08/07/2019	Three quotations not obtained	Emergency to extinguish run away veld fire from Klipfontein Farm due to strong winds and in accessibility to the area, Umpuluzi Fire Protection Association was requested to assist with Aerial Firefighting to extinguish the fire in order to prevent damages to structures and persons living in the rural area including livestock.	714 289

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand				2020	2019
<b>48. Deviation from supply chain management regulations (continued)</b>					
Umpuluzi Fire Protection	18/04/2019	Three quotations not obtained	Emergency to extinguish run away veld fire from Onverwacht Farm belonging to the National Government due to strong winds and in accessibility to the area, Umpuluzi Fire Protection Association was requested to assist with Aerial Firefighting to extinguish the fire in order to prevent damages to structures and persons living in the rural area including livestock.		369 361
Umpuluzi Fire Protection	18/07/2019	Three quotations not obtained	Emergency to extinguish run away veld fire from Shepstonet Farm, belonging to the National Government due to strong winds and in accessibility to the area, Umpuluzi Fire Protection Association was requested to assist with Aerial Firefighting to extinguish the fire in order to prevent damages to structures and persons living in the rural area including livestock.		117 368
Bees Technologies	18/03/2020		Impractical to advertise and obtain at least three quotations due to the lockdown in response to COVID-19. The existing service provider's contract with the municipality has expired and there is a need for an emergency Crane Truck to respond to the needs of the community		112 601
Bees Technologies	18/03/2020		Impractical to advertise and obtain at least three quotations due to the lockdown in response to COVID-19. The existing service provider's contract with the municipality has expired and there is a need for an emergency Crane Truck to respond to the needs of the community		197 051
Postnet	11/06/2020	Three quotations not obtained	Due to the lockdown as the result of COVID-19, the Post Office was closed down but there was an urgent need for the municipality to post the notices for valuation roll to property owners for any objections to be raised within a stipulated period in line with approved legislation		5 300
Mayivuthe Contractors	10/06/2020	Three quotations not obtained	Emergency due to Power failure at Breyten switching station.		229 640
					<u>2 612 499</u>

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 49. Budget differences

#### Statement of Financial Position

##### 1.3 - Receivables: Non-Exchange transactions

Budget was understated due to applying the NT guideline to provide for debt impairment for debtors older than 90 days .

##### 1.4 - Vat receivable

Omitted in budget due less provision on National Treasury template

##### 1.5 - Cash and cash equivalents

The cash and cash equivalent is in line with the primary bank account of R 1 265 577, the unspent was due to saving in call account a well unspent conditional grant of R16 696 65

##### 1.6 - Investment property

Error budgeting due to lack of sufficient information

##### 1.7 - Property, plant and equipment

Error budgeting due to lack of sufficient information

##### 1.8 - Heritage assets

Error budgeting due to lack of sufficient information

##### 1.9 - Finance lease obligation

Operational leases reclassified as Finance lease as contract exceed 3 years for the supply of photo copier and printers previously recognised a operational lease not budget for.

##### 1.11 - Trade payables: Exchange transactions

Trade and payables in general has mostly increased due debt from Department of Water and Sanitation, eskom and department of security, safety and Liaison as well related interest charged.

##### 1.12 - Consumer Deposits

The Municipality intended to revise its credit control policy to disallow opening of account to tenants and administer the property with the Owner, however policy deferred to 2020/21 financial year.

#### Statement of Changes in Net assets

##### 1.16 - Accumulated surplus

Adjustment for prior year, was not known during the budget preparation process.

#### Statement of Financial Performance

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 49. Budget differences (continued)

#### 2.3 - Agency

Underbudgeted due to lack of sufficient information during budget preparation processes.

#### 2.4 - Other income

Lack of thoughtful process during budget processes hence budget was over estimated and requirement by treasury to have accept only funded budget.

#### 2.5 - Interest earned

This has been caused by increased in debt book and investment of the unspent conditional grants on call account. An unplanned investment of excess cash were made at end of financial year on short term notice which was maximum 3 months. Interest was only budget for arrear debtors.

#### 3.2 - Grants

Equitable share was reduced with the rollover of capital grants that were declined for 2018/2019 in the amount of R 4, 5 million. Due to unspent conditional grants of R 16,696 million which would have if spent recognised as revenue.

#### 3.3 - Fines

Omission of factual data during budget preparation phase.

#### 3.4 - Donations

Omission of factual data during budget preparation phase as relevant information were not made available.

#### 4.1 - Employee related costs

The municipality started filling vacant post which has impacted basic total earnings on the employee related Cost such as overtime and other company contribution.

#### 4.3 - Repairs and maintenance

The plan to roll-over improved rehabilitation of its infrastructure, however due to financial constraint certain activities could not be implemented.

#### 4.6 - Finance Costs

Budget was not allocated due to guidelines by National treasury prohibiting Municipalities to budget for fruitless and wasteful expenditure, this was interest incurred on late payment mainly towards Eskom, Department water and sanitation and the Department of Safety and security liaison caused by cash flow that is not sufficient throughout the year.

#### 4.7 - Debt impairment

The adjusted budget was based on a 90 % collection rate which did not materialise and impact of Covid 19 which increased non-payment of accounts as currently collection rate is 75%,

#### 4.8 - Bulk purchases

There is an error in the financial system, hence does not reflect the actual event in this line item. The Actual Bulk purchases is more than the Budget as this mainly due to illegal connections, electricity tariffs not aligned to Eskom winter tariffs. Water due to distribution losses because of aged water infrastructure and technical loss.

#### 4.9 - Contracted services

The Municipality previously most of its services performed by contractors, in remedying the situation, The municipality as part of the financial recovery plan reviewed validity of contract and reduced the cost as to ensure that the municipality will only use services of which such skills are not found within the municipality.

#### 4.12 - Loss on disposal of assets

The municipality did not anticipate any loss, hence did not consider this line item for budget.

#### 4.14 - Actuarial gains and losses

The Municipality does not use work of an expert during budgeting, hence the omission during budget phase.

#### 4.14 - Inventory losses



# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

Figures in Rand	2020	2019
-----------------	------	------

---

### 49. Budget differences (continued)

#### Statement of Cashflows

##### 5.2 - Services

Budget assumption was based on budgeted billed revenue. There has been increased response in paying services despite the debt book increasing through the service of a debt collector.

##### 5.3 - Grants

Operational and capital grants as per the DORA was received. The exception is the equitable share that was reduced by R 4 million as roll over application for MIG and INEP unspent capital grants were declined and recovered.

##### 5.4 - Interest incom

Planned to invest conditional allocation on receipt however not materialised.

##### 5.5 - Other receipts

Error in budgeting for other income.

##### 5.7 - Purchase of property, plant and equipment

Planned to spent all the allocated conditional grants, however Regional Bulk Infrastructure Grant was not fully spent.

##### 5.8 - Proceeds on property, plant and equipment

Lack of supporting infomration during budgeting phase

##### 5.12 - Proceeds from investment property

Lack of supporting infomration during budgeting phase

### 50. Distribution losses

#### Values - Rand

Electricity	58 281 283	103 390 981
Water	15 005 938	30 182 652
	<b>73 287 221</b>	<b>133 573 633</b>

---

#### Values - Units

Electricity	93 807 774	86 752 569
Water	1 700 391	2 329 722
	<b>95 508 165</b>	<b>89 082 291</b>

---

#### Electricity

The municipality purchased 206,697,607 (2019: 204,167,985) units during the financial year and sold 112,899,833 (2019: 117,415,416) units during the financial year. This represents a loss of 45% (2019: 42%). Reasons for incurring electricity losses relates to the dissipation when electricity flows through the conductors, illegal connections, meter tampering and unmetered properties.

#### Water

The municipality purchased 5,945,325 (2019: 5,527,278) units during the financial year, of which a total of 4,244,934 (2019: 3,197,556) units were sold. This represents a loss of 29% (2019: 42%). Reasons for incurring water losses relates to old infrastructure, resulting in the section experiencing water leaks and continuous pipe breakages. The availability of working material in time is an issue, resulting in prolonged reaction times for the sections with breakages. Furthermore insufficient staff components and working vehicles which affect the reaction time.

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 51. Prior period errors

#### 1. Asset verification results

During the current year, management embarked on a process to verify its assets to ensure the existence, completeness and existence thereof. In addition to the aforementioned assertions, the classification of certain assets and asset types were re-evaluated and the necessary adjustments were made.

The affect of the adjustments are as follow:

#### **Statement of financial position**

Increase (Decrease) in Property, Plant and Equipment	-	18 748 946
Increase (Decrease) in VAT Receivables	-	626 980
(Increase) Decrease in Payables from Exchange Transactions	-	(1 257 243)
(Increase) Decrease in Accumulated Surplus	-	(9 135 483)

#### **Statement of financial performance**

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>51. Prior period errors (continued)</b>		
(Increase) Decrease in Donations	-	(10 124 629)
Increase (Decrease) in Depreciation	-	1 149 530
Increase (Decrease) in Other Income	-	(9 342)
Increase (Decrease) in Loss on Disposal of Assets and Liabilities	-	1 242
<b>2. Investment Property</b>		
During the year the municipality embarked on a process to respond to the application of iGRAP 18. This included the recognition and derogation of land based on control		
The affect of the adjustments are as follow:		
<b>Statement of financial position</b>		
Increase (Decrease) in Investmet Property	-	(196 379 428)
Increase (Decrease) in Property, Plant and Equipment	-	3 331 159
(Increase) Decrease in Accumulated Surplus	-	195 399 693
<b>Statement of financial performance</b>		
(Increase) Decrease in Fair Value Adjustments	-	(4 005 640)
(Increase) Decrease in Loss on Disposal of Assets and Liabilities	-	1 654 215
<b>3. Reconciliation of the payable accounts and sub-accounts</b>		
During the preparation of the Annual Financial Statements, management identified a number of misallocation and corrections in respect to the previous financial year. These were corrected retrospectively.		
The affect of the adjustments are as follow:		
<b>Statement of financial position</b>		
Increase (Decrease) in Other Receivables from Exchange Transactions	-	14 014 482
Increase (Decrease) in VAT Receivables	-	65 472 973
Increase (Decrease) in Cash and Cash Equivalents	-	(2 057 872)
(Increase) Decrease in Payables from Exchange Transactions	-	(219 804 540)
(Increase) Decrease in Accumulated Surplus	-	(113 146 733)
<b>Statement of financial performance</b>		
(Increase) Decrease in Employee Related Costs	-	6 050 992
(Increase) Decrease in Other Income	-	(4 203 555)
Increase (Decrease) in Finance Costs	-	(3 511 597)
Increase (Decrease) in Agency Services	-	(993 272)
Increase (Decrease) in Bulk Purchases	-	237 699 539
Increase (Decrease) in Repairs and Maintenance	-	(3 598 921)
Increase (Decrease) in General Expenses	-	24 078 504
<b>4. Reclassifications made to the Annual Financial Statements</b>		
During the preparation of the 2020 Annual Financial Statements, a number of reclassifications were made to ensure that the statements are fairly presented. As part of the reclassification process, management identified various adjustments outside of the accounting system that were appropriately not recognised in the accounting system		
The affect of the adjustments are as follow:		
<b>Statement of financial position</b>		
Increase (Decrease) in Receivables from Exchange Transactions - Current	-	(72 156 661)
Increase (Decrease) in Receivables from Non-Exchange Transactions - Current	-	12 529 952
Increase (Decrease) in VAT Receivables	-	15 689 854
(Increase) Decrease in Payables from Exchange Transactions	-	15 811 933
(Increase) Decrease in Cash and Cash Equivalents	-	4 271 044
(Increase) Decrease in Consumer Deposits	-	(123 571)
(Increase) Decrease in Accumulated Surplus	-	53 168 597
<b>Statement of financial performance</b>		

# Msukaligwa Local Municipality

(Registration number MP302)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 51. Prior period errors (continued)

(Increase) Decrease in Property Rates	-	(239 699)
(Increase) Decrease in Lease rentals on operating leases	-	(948 539)
(Increase) Decrease in Fines	-	(790 967)
(Increase) Decrease in Other Income	-	(886 894)
(Increase) Decrease in Interest Earned	-	(251 195)
(Increase) Decrease in Agency Services	-	2 715 794
(Increase) Decrease in Contracted Services	-	(4 417 951)
Increase (Decrease) in Debt Impairment	-	(22 650 484)
Increase (Decrease) in Repairs and Maintenance	-	31 580 635
Increase (Decrease) in Employee Related Costs	-	(4 855 543)
Increase (Decrease) in Bulk Purchases	-	(35 409)
Increase (Decrease) in General Expenses	-	(27 051 274)
(Increase) Decrease in Finance Costs	-	5 989 061
Increase (Decrease) in Actuarial gains/losses	-	(7 348 680)