



Tswaing Local Municipality
Annual Financial Statements
for the year ended 30 June 2018

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

General Information

Country of incorporation and domicile	South Africa
Mayoral committee	
Executive Mayor	Hon Cllr L Malwane
Speaker	Hon Cllr UP Lobelo
Chief Whip	Hon Cllr AN Noko
Councillors	Cllr L Bome Cllr SV Moremedi Cllr MM Moreo Cllr KE Blou Cllr ST Lerumo Cllr AT Modise Cllr B Phutiyagae Cllr NJ Molehabangwe Cllr TE Chabanku Cllr TS Tsholo Cllr ME Boo Cllr MS Letlakane Cllr AT Mabovu Cllr PM Mokoto Cllr TD Mthimkulu Cllr OJ Makalela Cllr TA Morei Cllr S Viljoen Cllr EM Thobengani Cllr TP Miga Cllr JK Magwejane Cllr LY Taljaard Cllr GE Kgasu Cllr KC Seduko Cllr GB Madebe Cllr JH Botha Kgosi JEF Molete Kgosi C Moshoelette
Grading of local authority	Low capacity
Accounting Officer	Mr ML Moruti
Registered office	Cnr. General Delarey and Government Street Delareyville 2770
Business address	Cnr. General Delarey and Government Street Delareyville 2770
Postal address	P O Box 24 Delareyville 2770
Bankers	First National Bank

Tswaing Local Municipality

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Abbreviations

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

Tswaing Local Municipality

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Accounting Officer's Responsibilities and Approval

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

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

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

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

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out on page 5 - 57, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2018.

Mr ML Moruti
Accounting Officer

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2018.

1. Review of activities

Main business and operations

The municipality's main business is the provision of services to the community in line with Part B of Schedule 4 and Part B of Schedule 5 of the Constitution.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements and do not in my opinion require any further comment.

Net deficit of the municipality was R 4 032 494 (2017: surplus R 52 000 332).

2. Going concern

We draw attention to the fact that at 30 June 2018, the municipality had a deficit of R 4 032 495 and that the entity's total current liabilities exceed its current assets by R 149 730 101.

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.

3. Subsequent events

The accounting officer is not aware of any subsequent events.

4. Accounting Officer's interest in contracts

The accounting officer does not have any interest in any contract concerning Tswaing Local Municipality.

5. Accounting policies

The annual financial statements have been prepared in accordance with South African Standards of Generally Recognised Accounting Practice and the requirements of the Municipal Finance Management Act 2003 (Act NO. 56 of 2003) (MFMA) and the Division of Act South Africa (Act No 2 of 2013) (DoRA).

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

6. 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.

7. Bankers

The banker of Tswaing Local Municipality is First National Bank.

8. Auditors

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

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Position as at 30 June 2018

Figures in Rand	Note(s)	2018	2017 Restated*
Assets			
Current Assets			
Inventories	2	8 651 109	8 436 091
Receivables from exchange transactions	3	592 744	101 547
Receivables from non-exchange transactions	4	1 733 843	35 263 385
Trade receivables from exchange transactions	5	18 523 274	27 840 654
Cash and cash equivalents	6	93 848	301 294
		29 594 818	71 942 971
Non-Current Assets			
Biological assets	7	1 916 300	1 791 000
Investment property	8	59 966 377	60 130 767
Property, plant and equipment	9	633 972 946	580 963 407
Heritage assets	10	953 000	953 000
Other financial assets	11	568 820	567 191
		697 377 443	644 405 365
Total Assets		726 972 261	716 348 336
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	150 242 007	140 904 259
Value added tax payable	13	26 402 177	15 028 256
Consumer deposits	14	1 185 909	1 146 154
Unspent conditional grants and receipts	15	1 494 827	10 360 311
		179 324 920	167 438 980
Non-Current Liabilities			
Provisions	16	59 970 467	57 199 987
Total Liabilities		239 295 387	224 638 967
Net Assets		487 676 874	491 709 369
Accumulated surplus		487 676 875	491 709 369

* See Note 47

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Financial Performance

Figures in Rand	Note(s)	2018	2017 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	57 819 169	74 638 822
Rental of facilities and equipment		135 436	484 932
Licences and permits		2 247 031	2 426 629
Other income		1 372 962	687 024
Interest received - investment	20	234 735	198 552
Dividends received	20	20 000	32 553
Total revenue from exchange transactions		61 829 333	78 468 512
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	21	23 135 306	19 206 457
Transfer revenue			
Government grants & subsidies	22	141 336 969	101 083 017
Donations		38 675 195	726 899
Fines		590 123	223 142
Other income		579 208	-
Total revenue from non-exchange transactions		204 316 801	121 239 515
Total revenue	17	266 146 134	199 708 027
Expenditure			
Employee related costs	23	(76 873 307)	(66 838 181)
Remuneration of councillors	24	(11 289 745)	(9 265 246)
Depreciation and amortisation	25	(27 425 946)	(33 252 352)
Impairment loss/ Reversal of impairments	26	(1 482 983)	(8 304 511)
Finance costs	27	(14 296 812)	(16 330 208)
Lease rentals on operating lease		(430 770)	(675 661)
Debt Impairment	28	(55 368 967)	(37 651 434)
Repairs and maintenance		(890 269)	(3 848 049)
Bulk purchases	29	(37 375 506)	(32 586 846)
Contracted services	30	(6 783 364)	(5 246 428)
General Expenses	31	(43 109 577)	(40 822 656)
Total expenditure		(275 327 246)	(254 821 572)
Operating deficit	34	(9 181 112)	(55 113 545)
Loss on disposal of assets and liabilities		(217 385)	(4 430 921)
Fair value adjustments	32	1 629	-
Actuarial gains/losses		5 094 499	6 963 000
Gain on biological assets	45	125 300	581 134
Inventories losses/write-downs		144 574	-
		5 148 617	3 113 213
Deficit for the year		(4 032 495)	(52 000 332)

* See Note 47

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	508 679 184	508 679 184
Adjustments		
Correction of errors	35 030 516	35 030 516
Balance at 1 July 2016 as restated*	543 709 700	543 709 700
Changes in net assets		
Deficit for the year as previously reported 2017	(49 218 863)	(49 218 863)
Correction of errors	(2 781 468)	(2 781 468)
	-	-
Restated deficit for the year	(52 000 331)	(52 000 331)
Total changes	(52 000 331)	(52 000 331)
Restated* Balance at 1 July 2017	491 709 369	491 709 369
Changes in net assets		
Deficit for the year	(4 032 494)	(4 032 494)
Total changes	(4 032 494)	(4 032 494)
Balance at 30 June 2018	487 676 875	487 676 875
Note(s)		

* See Note 47

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Cash Flow Statement

Figures in Rand	Note(s)	2018	2017 Restated*
Cash flows from operating activities			
Receipts			
Interest income		234 735	192 917
Dividends		20 000	32 553
Cash receipts from ratepayers, government and others		216 751 153	200 102 598
		<u>217 005 888</u>	<u>200 328 068</u>
Payments			
Cash paid to suppliers and employees		(173 917 066)	(174 450 499)
Net cash flows from operating activities	35	<u>43 088 822</u>	<u>25 877 569</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(43 296 268)	(25 958 080)
Purchases of heritage assets	10	-	(953 000)
Net cash flows from investing activities		<u>(43 296 268)</u>	<u>(26 911 080)</u>
Net increase/(decrease) in cash and cash equivalents		(207 446)	(1 033 511)
Cash and cash equivalents at the beginning of the year		301 294	1 334 805
Cash and cash equivalents at the end of the year	6	<u>93 848</u>	<u>301 294</u>

* See Note 47

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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
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Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	62 290 000	4 034 569	66 324 569	57 819 169	(8 505 400)	N1
Rental of facilities and equipment	540 000	(170 342)	369 658	135 436	(234 222)	
Licences and permits	1 498 000	1 677 294	3 175 294	2 247 031	(928 263)	N2
Other income	2 457 000	-	2 457 000	1 372 962	(1 084 038)	N3
Interest received - investment	107 000	-	107 000	234 735	127 735	
Dividends received	19 000	277 171	296 171	20 000	(276 171)	
Total revenue from exchange transactions	66 911 000	5 818 692	72 729 692	61 829 333	(10 900 359)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	14 949 000	12 080 469	27 029 469	23 135 306	(3 894 163)	N4
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Transfer revenue

Government grants & subsidies	97 640 000	27 687 371	125 327 371	141 336 969	16 009 598	N5
Donations	-	-	-	38 675 195	38 675 195	N6
Fines	90 000	-	90 000	590 123	500 123	
Other income	-	-	-	579 208	579 208	

Total revenue from non-exchange transactions	112 679 000	39 767 840	152 446 840	204 316 801	51 869 961	
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Total revenue	179 590 000	45 586 532	225 176 532	266 146 134	40 969 602	
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Expenditure

Employee related costs	(77 127 000)	(2 593 210)	(79 720 210)	(76 873 307)	2 846 903	N7
Remuneration of councillors	(10 062 000)	(565)	(10 062 565)	(11 289 745)	(1 227 180)	N8
Depreciation and asset impairment	(12 618 195)	-	(12 618 195)	(27 425 946)	(14 807 751)	N9
Impairment loss/ Reversal of impairments	-	-	-	(1 482 983)	(1 482 983)	N10
Finance costs	-	-	-	(14 296 812)	(14 296 812)	N11
Lease rentals on operating lease	(1 269 200)	-	(1 269 200)	(430 770)	838 430	N12
Debt impairment	(5 421 591)	-	(5 421 591)	(55 368 967)	(49 947 376)	N13
Repairs and maintenance	(7 838 000)	-	(7 838 000)	(890 269)	6 947 731	N14
Bulk purchases	(34 348 888)	-	(34 348 888)	(37 375 506)	(3 026 618)	N15
Contracted Services	(5 064 000)	(17 660 428)	(22 724 428)	(6 783 364)	15 941 064	N16
General Expenses	(28 333 000)	(4 540 000)	(32 873 000)	(43 109 577)	(10 236 577)	N17

Total expenditure	(182 081 874)	(24 794 203)	(206 876 077)	(275 327 246)	(68 451 169)	
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Operating deficit	(2 491 874)	20 792 329	18 300 455	(9 181 112)	(27 481 567)	
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Loss on disposal of assets and liabilities	-	-	-	(217 385)	(217 385)	
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Fair value adjustments	-	-	-	1 629	1 629	
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Actuarial gains/losses	-	-	-	5 094 499	5 094 499	
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Gain on biological assets and agricultural produce	-	-	-	125 300	125 300	
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Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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						
Inventories losses/write-downs	-	-	-	144 574	144 574	
	-	-	-	5 148 617	5 148 617	
Deficit before taxation	(2 491 874)	20 792 329	18 300 455	(4 032 495)	(22 332 950)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(2 491 874)	20 792 329	18 300 455	(4 032 495)	(22 332 950)	

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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 Biological assets

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

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

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

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

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
- 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 entity, 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.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.4 Investment property (continued)

Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

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

Item	Useful life
Property - land	indefinite
Property - buildings	20 years

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 entity; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.5 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Buildings	Straight line	50 years
Machinery and Equipment	Straight line	5 - 10 years
Furniture and fixtures	Straight line	5 - 12 years
Motor vehicles	Straight line	5 - 10 years
Office equipment	Straight line	5 - 10 years
Other Assets	Straight line	5 - 10 years
Computer software	Straight line	3 - 7 years
Infrastructure community	Straight line	5 - 100 years
Infrastructure	Straight line	5 - 100 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.

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

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

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 generation.

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

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

The entity 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 entity, and the cost or fair value of the asset can be measured reliably.

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.

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

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

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.6 Heritage assets (continued)

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

The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the heritage asset. Such difference is recognised in surplus or deficit when the heritage asset is derecognised.

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 uncollectability.

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').
- 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.

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1.7 Financial instruments (continued)

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

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

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

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

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

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

- derivatives;
- combined instruments that are designated at fair value;
- 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.

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1.8 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.

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.

1.9 Inventories

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

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

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

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

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

Current replacement cost is the cost the entity 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 formula. The same cost formula is used for all inventories having a similar nature and use to the entity.

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.

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1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the entity with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

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 held with the primary 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:

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

Criteria developed by the entity to distinguish cash-generating assets from non-cash-generating assets are as follow:

1.11 Employee benefits

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

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.

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.

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Accounting Policies

1.11 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

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1.11 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

Tswaing Local Municipality

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Accounting Policies

1.11 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Tswaing Local Municipality

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Accounting Policies

1.11 Employee benefits (continued)

The entity determine 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.

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Accounting Policies

1.11 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.

1.12 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the entity 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 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.

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Accounting Policies

1.12 Provisions and contingencies (continued)

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

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

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

No obligation arises as a consequence of the sale or transfer of an operation until the entity 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 37.

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 entity 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;
- 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 entity 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 entity considers that an outflow of economic resources is probable, an entity 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.

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Accounting Policies

1.12 Provisions and contingencies (continued)

Levies

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

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

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

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

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

1.13 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.14 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.

Tswaing Local Municipality

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Accounting Policies

1.14 Revenue from exchange transactions (continued)

Sale of goods

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

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

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 entity, and
- The amount of the revenue can be measured reliably.

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

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

Dividends or similar distributions are recognised, in surplus or deficit, when the entity'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.

1.15 Revenue from non-exchange transactions

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

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

Control of an asset arises when the entity 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.

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Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

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, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity 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 entity.

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

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

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

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

Recognition

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

As the entity 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 entity.

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

Transfers

Apart from Services in kind, which are not recognised, the entity 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 entity 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.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Fines

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

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

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

1.16 Investment income

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

1.17 Borrowing costs

1.18 Comparative figures

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

1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.20 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.

1.21 Irregular expenditure

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

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the PFMA requires the following (effective from 1 April 2008):

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

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Accounting Policies

1.21 Irregular expenditure (continued)

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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

1.22 Budget information

Entity 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 entity 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 01/07/2016 to 30/06/2017.

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.

1.23 Related parties

The entity operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

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

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

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Tswaing Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
2. Inventories		
Land inventory	7 673 545	7 528 971
Stores, materials and fuels	977 564	907 120
	8 651 109	8 436 091
Inventory pledged as security		
No inventory was pledged as security.		
3. Receivables from exchange transactions		
Other receivables	592 744	101 547
4. Receivables from non-exchange transactions		
Consumer debtors - Rates	1 733 843	35 263 385
5. Trade and other receivables from exchange transactions		
Gross balances		
Electricity	32 129 387	44 650 429
Water	17 373 746	43 459 178
Other	6 117 517	20 762 596
Sewerage	25 675 847	50 927 694
Refuse	28 353 078	64 955 287
	109 649 575	224 755 184
Less: Allowance for impairment		
Consumer debtors impairment	(91 126 301)	(196 914 530)
Net balance		
Electricity	32 129 387	44 650 429
Water	17 373 746	43 459 178
Other	6 117 517	20 762 596
Sewerage	25 675 847	50 927 694
Refuse	28 353 078	64 955 287
Consumer debtors allowance for impairment	(91 126 301)	(196 914 530)
	18 523 274	27 840 654
Electricity		
Current (0 -30 days)	3 944 634	1 543 865
31 - 60 days	3 281 160	1 117 529
61 - 90 days	777 956	987 948
91 - 120 days	628 955	805 865
121 - 365 days	23 496 682	40 195 222
	32 129 387	44 650 429
Water		
Current (0 -30 days)	1 148 916	1 152 296
31 - 60 days	1 662 051	405 012
61 - 90 days	394 691	384 380
91 - 120 days	457 849	362 404
121 - 365 days	13 710 239	41 155 086
	17 373 746	43 459 178

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
5. Trade and other receivables from exchange transactions (continued)		
Other		
Current (0 -30 days)	50 921	50 700
31 - 60 days	86 351	37 360
61 - 90 days	33 719	37 672
91 - 120 days	31 442	28 766
121 - 365 days	1 318 928	20 608 098
> 365 days	4 596 156	-
	6 117 517	20 762 596
Sewerage		
Current (0 -30 days)	903 993	858 599
31 - 60 days	2 640 699	833 181
61 - 90 days	847 253	818 492
91 - 120 days	842 841	809 260
121 - 365 days	20 441 061	47 608 162
	25 675 847	50 927 694
Refuse		
Current (0 -30 days)	935 580	882 036
31 - 60 days	2 687 653	834 793
61 - 90 days	854 670	815 843
91 - 120 days	848 430	743 202
121 - 365 days	23 026 745	61 679 413
	28 353 078	64 955 287
Impairment		
Amount	(104 319 570)	(196 914 530)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(196 914 534)	(166 915 207)
Contributions to allowance	-	(26 616 920)
Debt impairment	-	(3 382 403)
Reversal of allowance	105 788 233	-
	(91 126 301)	(196 914 530)

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	455	455
Bank balances	93 393	300 839
	93 848	301 294

Cash and cash equivalents pledged as collateral

The entity had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2018	30 June 2017	30 June 2016	30 June 2018	30 June 2017	30 June 2016
First National Bank - Current Account (52050012816)	88 243	221 313	770 571	88 243	221 313	770 571
Traffic Fines Account (62526417086)	5 150	79 445	494 874	5 150	79 445	494 874
Money Market Account (62263163752)	-	81	68 906	-	81	68 906
Total	93 393	300 839	1 334 351	93 393	300 839	1 334 351

7. Biological assets

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Biological assets	1 916 300	-	1 916 300	1 791 000	-	1 791 000

Reconciliation of biological assets - 2018

	Opening balance	Gains or losses arising from changes in fair value	Total
Biological assets	1 791 000	125 300	1 916 300

Reconciliation of biological assets - 2017

	Opening balance	Gains or losses arising from changes in fair value	Total
Biological assets	1 197 600	593 400	1 791 000

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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8. Investment property

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	61 953 000	(1 986 623)	59 966 377	61 953 000	(1 822 233)	60 130 767

Reconciliation of investment property - 2018

	Opening balance	Depreciation	Total
Investment property	60 130 767	(164 390)	59 966 377

Reconciliation of investment property - 2017

	Opening balance	Depreciation	Total
Investment property	59 966 377	164 390	60 130 767

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 entity.

Deemed cost

Investment property consist of land and is carried at cost. No depreciation is calculated as land is deemed to have an indefinite useful life.

9. Property, plant and equipment

	2018			2017		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	123 387 830	-	123 387 830	123 387 830	-	123 387 830
Buildings	45 879 106	(36 046 460)	9 832 646	101 761 342	(64 882 305)	36 879 037
Machinery and Equipment	113 890	(53 506)	60 384	122 992	(62 248)	60 744
Furniture and fixtures	2 673 399	(1 473 377)	1 200 022	2 979 503	(1 401 706)	1 577 797
Motor vehicles	7 559 584	(4 528 226)	3 031 358	7 012 085	(4 014 555)	2 997 530
Office equipment	106 914	(43 990)	62 924	68 919	(36 577)	32 342
Computer equipment	1 794 652	(636 962)	1 157 690	1 174 543	(499 869)	674 674
Other Assets	609 825	(221 994)	387 831	642 742	(195 786)	446 956
Infrastructure community assets	272 423 333	(148 286 678)	124 136 655	180 357 298	(108 348 469)	72 008 829
Roads Network Infrastructure	450 075 095	(243 073 323)	207 001 772	450 172 906	(233 169 890)	217 003 016
Storm Water Infrastructure	29 305 420	(18 572 296)	10 733 124	29 410 140	(17 926 072)	11 484 068
Water Supply Network Infrastructure	2 823 645	(1 157 694)	1 665 951	2 823 654	(1 016 512)	1 807 142
Electrical Network Infrastructure	119 427 096	(49 842 242)	69 584 854	119 427 096	(46 980 034)	72 447 062
Sanitation Network Infrastructure	835 580	(420 155)	415 425	835 580	(393 031)	442 549
Solid Waste Infrastructure	2 599 976	(1 928 766)	671 210	2 559 976	(1 842 100)	717 876
Work in progress	80 643 270	-	80 643 270	38 995 955	-	38 995 955
Total	1 140 258 615	(506 285 669)	633 972 946	1 061 732 561	(480 769 154)	580 963 407

Tswaing Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2018

	Opening balance	Additions	Additions through donations	Disposals	Depreciation	Impairment loss	Total
Land	123 387 830	-	-	-	-	-	123 387 830
Buildings	36 376 518	-	-	(9 755)	(4 517 840)	(1 372 060)	30 476 863
Machinery and equipment	60 744	-	-	-	(12 984)	-	47 760
Furniture and fixtures	1 577 797	-	-	(88 174)	(289 601)	-	1 200 022
Motor vehicles	2 997 531	940 000	-	-	(906 173)	-	3 031 358
Office equipment	32 341	39 783	-	-	(9 200)	-	62 924
Computer equipment	674 676	669 170	139 650	(67 470)	(263 996)	-	1 152 030
Other Assets	446 955	-	-	-	(62 505)	-	384 450
Community Facilities	72 464 470	-	38 535 544	(68 753)	(7 401 300)	(22 747)	103 507 214
Roads Network Infrastructure	217 003 016	-	-	(47 288)	(9 953 956)	-	207 001 772
Storm Water Infrastructure	11 484 067	-	-	(24 120)	(726 823)	-	10 733 124
Water Supply Network Infrastructure	1 807 132	-	-	-	(141 182)	-	1 665 950
Electrical Network Infrastructure	72 447 061	-	-	-	(2 862 207)	-	69 584 854
Sanitation Network Infrastructure	442 549	-	-	-	(27 124)	-	415 425
Solid Waste Infrastructure	757 876	-	-	-	(86 665)	-	671 211
Work in progress	38 995 955	41 647 315	-	-	-	-	80 643 270
	580 956 518	43 296 268	38 675 194	(305 560)	(27 261 556)	(1 394 807)	633 966 057

Tswaing Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2017

	Opening balance	Additions	Additions through donations	Disposals	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	123 683 065	-	-	(295 235)	-	-	-	-	123 387 830
Buildings	41 373 736	163 425	-	(72 279)	-	-	(5 088 364)	-	36 376 518
Machinery and equipment	40 859	32 684	-	-	-	-	(12 800)	-	60 743
Furniture and fixtures	1 350 954	-	497 481	-	-	-	(268 863)	(1 775)	1 577 797
Motor vehicles	3 606 394	354 450	-	-	-	-	(943 425)	(19 888)	2 997 531
Office equipment	40 483	-	-	-	-	-	(8 142)	-	32 341
Computer equipment	651 385	88 500	119 720	-	-	-	(170 496)	(14 433)	674 676
Other Assets	392 924	-	109 698	-	-	-	(52 170)	(3 497)	446 955
Community Facilities	70 683 828	8 474 606	-	-	-	38 460	(6 732 424)	-	72 464 470
Roads Network Infrastructure	218 393 453	25 117 172	-	(2 642 036)	-	-	(15 980 700)	(7 884 873)	217 003 016
Storm Water Infrastructure	11 743 045	847 172	-	-	-	-	(726 107)	(380 044)	11 484 066
Water Supply Network Infrastructure	1 948 315	-	-	-	-	-	(141 182)	-	1 807 133
Electrical Network Infrastructure	75 309 510	-	-	-	-	-	(2 862 449)	-	72 447 061
Sanitation Network Infrastructure	386 442	82 771	-	-	-	-	(26 664)	-	442 549
Solid Waste Infrastructure	844 542	-	-	-	-	-	(86 666)	-	757 876
Work in progress	45 512 702	27 502 453	-	-	(34 019 200)	-	-	-	38 995 955
	595 961 637	62 663 233	726 899	(3 009 550)	(34 019 200)	38 460	(33 100 452)	(8 304 510)	580 956 517

Tswaing Local Municipality

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9. Property, plant and equipment (continued)

Transfers

Transfers to and from property plant and equipment relates to projects that were recognised as Work In Progress that have reached completion and now form additions of infrastructure assets , community assets and land and buildings.

The Work In Progress is thus transferred from the Work In Progress account and the Infrastructure assets, Community assets and Land and buildings.

Other changes , movements

These relate to the derecognition of road reserves and the correction of Remaining Useful Life error of assets that would have been fully depreciated but on review of useful lifes found to be still operational and in working condition. The assets depreciation periods was accordingly fixed to resemble the reassessment of useful lifes as performed.

Tswaing Local Municipality

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Figures in Rand	2018	2017
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10. Heritage assets

	2018			2017		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	953 000	-	953 000	953 000	-	953 000

Reconciliation of heritage assets 2018

	Opening balance	Total
Historical monuments	953 000	953 000

Reconciliation of heritage assets 2017

	Opening balance	Additions	Total
Historical monuments	-	953 000	953 000

11. Other financial assets

Designated at fair value

Listed shares	568 820	567 191
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Non-current assets

Designated at fair value	568 820	567 191
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12. Payables from exchange transactions

Trade payables	113 636 601	114 218 030
Payments received in advanced	-	9 223 639
Retentions	10 431 888	8 802 809
Other payables	17 426 288	986 398
Accrued leave pay	6 993 393	6 005 927
Accrued bonus	1 750 620	1 665 218
Petrol card	3 217	2 238
	150 242 007	140 904 259

13. VAT payable

Valued Added Tax Payable	26 402 177	15 028 256
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14. Consumer deposits

Rates	1 180 170	1 146 154
Housing rental	5 739	-
	1 185 909	1 146 154

Tswaing Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
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15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	-	8 283 526
Financial Management Grant (FMG)	-	614 989
Library grant	1 494 828	1 461 797
	1 494 828	10 360 312

Movement during the year

Balance at the beginning of the year	10 360 311	2 214 049
Additions during the year	44 967 000	34 213 042
Income recognition during the year	(53 832 484)	(26 066 780)
	1 494 827	10 360 311

16. Provisions

Reconciliation of provisions - 2018

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	16 351 987	2 469 865	-	508 546	19 330 398
Employee long service benefit cost	4 887 000	406 000	(1 076 665)	838 665	5 055 000
Post employment medical aid liability	35 961 000	2 130 000	(642 767)	(1 863 164)	35 585 069
	57 199 987	5 005 865	(1 719 432)	(515 953)	59 970 467

Reconciliation of provisions - 2017

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	15 888 324	463 663	-	16 351 987
Employee long service benefit cost	4 904 000	-	(17 000)	4 887 000
Post employment medical aid liability	36 524 000	-	(563 000)	35 961 000
	57 316 324	463 663	(580 000)	57 199 987

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Notes to the Annual Financial Statements

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16. Provisions (continued)

Environmental rehabilitation provision

The municipality has a present obligation to ensure rehabilitation of the land fill sites used after the economic life of the land fill site has been fully utilised.

Financial assumptions used:

Adjustment of unit costs:

The baseline for the unit costs are adjusted annually. For the various cost elements relating to pre-closure planning as well as post-closure monitoring and maintenance, the Consumer Price Index¹ (CPI) was used to adjust the unit cost for each cost element. The unit cost of the various costs elements relating to rehabilitation and closure were adjusted using the Civil Engineering (Earthworks) Index².

CPI

The CPI was used for the annual adjustment of unit costs as well as for determining the future value of current costs in the year

when the cost is projected to be incurred. The CPI was obtained from Statistics South Africa. The average of the CPI June 2017 and June 2018 is +5.3%

Discount rate:

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 Defined benefit plans, government bond rates may also be used to determine the discount rate. Where the liability in this case is determined for a government entity (municipality), government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

Uncertainties regarding the calculation and estimation of the provision:

A number of variables impact on the eventual rehabilitation and closure costs by either increasing or decreasing the basic unit cost.

Variables that are (normally) out of the control of the municipality:

- Length of perimeter of the landfill.
- Location of landfill in water-deficit or water-surplus area.
- Availability of suitable capping material on-site or in the vicinity.
- Availability of top-soiling and vegetating material on-site.
- Requirement for a gas control system

Variables that relate to availability of information:

- Availability and quality of technical reports, including End-Use Plan and Closure Design.
- Occurrence of environmental impacts of landfill (confirmed by monitoring).
- Occurrence of gas/air quality problems experienced (confirmed by monitoring).
- Occurrence of significant leachate problems (confirmed by monitoring).

Variables that relate to management practices:

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16. Provisions (continued)

- Whether the landfill is permitted/licensed or not.
- Existence and functioning of monitoring committee for landfill, including stakeholders.
- Quality of on-going operation of landfill in respect of compacting and trimming of areas already used.
- Whether available top-soiling material is actively managed to retain its quality characteristics for closure purposes.
- Existence and condition of fence.
- The remaining lifespan of the landfill.

Long service provision

In addition to normal leave an employee shall qualify for the following additional leave as recognition for service at the same employer, which shall be paid out respectively once only the date on which the various periods of continues service have been completed, as follows.

After 10 years service - 10 working days
After 15 years service - 20 working days
After 20 years service - 30 working days
After 25 years service - 30 working days
After 30 years service - 30 working days
After 35 years service - 30 working days
After 40 years service - 30 working days
After 45 years service - 30 working days.

An employee may choose to either utilise the leave for holiday purposes or en-cash leave within 12 months.

The two most important financial variables used in our valuation are the discount rate and salary inflation. An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events.

Discount rate

IAS19 defines the determination of the Discount rate assumption to be used as the rate that can “be determined by reference to market yields at the balance sheet* date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet* date) on government bonds should be used. The currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations. “reimbursement.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Tswaing Local Municipality

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Figures in Rand	2018	2017
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16. Provisions (continued)

Post Employment Medical Provision

The Municipality provides certain post-retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current condition of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the Municipality is liable for a certain portion of the medical aid membership fee. The Municipality operates an unfunded defined benefit plan for these qualifying employees.

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2018.

The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method. The Post Employment Health Care Benefit Plan is a defined benefit plan.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	9,54%	10,26%
Consumer Price Inflation (C)	7,07%	7,18%
Health Care Cost Inflation	8,57%	8,68%
Net Effective Discount Rate	0,89%	1,45%
Proportion assumed married at retirement	90%	90%
Average retirement age	63	63
Mortality during employment	SA 85-90	SA 85-90.

17. Revenue

Service charges	57 819 169	74 638 822
Rental of facilities and equipment	135 436	484 932
Licences and permits	2 247 031	2 426 629
Other income	1 372 962	687 024
Interest received - investment	234 735	198 552
Dividends received	20 000	32 553
Property rates	23 135 306	19 206 457
Government grants & subsidies	141 336 969	101 083 017
Donations	38 675 195	726 899
Fines	590 123	223 142
Other income	579 208	-
	266 146 134	199 708 027

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

Service charges	57 819 169	74 638 822
Rental of facilities and equipment	135 436	484 932
Licences and permits	2 247 031	2 426 629
Other income	1 372 962	687 024
Interest received - investment	234 735	198 552
Dividends received	20 000	32 553
	61 829 333	78 468 512

Tswaing Local Municipality

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Figures in Rand	2018	2017
17. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Taxation revenue		
Property rates	23 135 306	19 206 457
Transfer revenue		
Government grants & subsidies	141 336 969	101 083 017
Donations	38 675 195	726 899
Fines	590 123	223 142
Other income	579 208	-
	204 316 801	121 239 515
18. Service charges		
Sale of electricity	31 595 019	44 485 034
Sale of water	6 354 644	6 213 848
Sewerage and sanitation charges	10 001 674	11 092 375
Refuse removal	9 867 833	12 621 176
Other	-	226 389
	57 819 170	74 638 822
19. Other revenue		
Other income	1 372 962	687 024
20. Investment revenue		
Dividend revenue		
Other financial asset	20 000	32 553
Interest revenue		
Bank	234 735	198 552
	254 735	231 105
21. Property rates		
Rates received		
Property rates	23 135 306	19 206 457

Tswaing Local Municipality

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Figures in Rand	2018	2017
22. Government grants and subsidies		
Operating grants		
Equitable share	92 403 000	75 726 049
Financial management grant	2 345 000	1 395 011
EPWP	1 182 000	1 248 280
Ngaka Modiri Molema District Municipality	4 000 000	-
Library grant	1 676 969	1 558 203
	101 606 969	79 927 543
Capital grants		
Municipal infrastructure grant (MIG)	39 730 000	19 655 475
Intergrated National Electrification Program (INEP)	-	1 500 000
	39 730 000	21 155 475
	141 336 969	101 083 018
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Municipal infrastructure grant		
Balance unspent at beginning of year	8 283 526	82 833
Current-year receipts	39 730 000	27 939 000
Conditions met - transferred to revenue	(39 730 000)	(19 655 474)
Transferred to equitable share	(8 283 526)	(82 833)
	-	8 283 526
Conditions still to be met - remain liabilities (see note 15).		
The Grant (Municipal Infrastructure Grant-MIG) is intended to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.		
Financial management grant		
Balance unspent at beginning of year	614 989	-
Current-year receipts	2 345 000	2 010 000
Conditions met - transferred to revenue	(2 345 000)	(1 395 011)
Transferred to equitable share	(614 989)	-
	-	614 989
Library grant		
Balance unspent at beginning of year	1 461 797	1 360 000
Current-year receipts	1 710 000	1 660 000
Conditions met - transferred to revenue	(1 676 969)	(1 558 203)
	1 494 828	1 461 797
Conditions still to be met - remain liabilities (see note 15).		
To provide the municipality with finance for operation and administration of Atamelang and Gaanalagte Community Library.		
MSIG		
Balance unspent at beginning of year	-	709 631
Conditions met - transferred to revenue	-	(709 631)

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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Figures in Rand	2018	2017
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22. Government grants and subsidies (continued)

	-	-
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Conditions still to be met - remain liabilities (see note 15).

To assist the municipality in building in house capacity to perform their functions and stabilise institutional governance systems as required in the Municipal Systems Act (MSA) and related legislation, policies and local government turnaround strategy.

LG Seta

Balance unspent at beginning of year	-	61 585
Conditions met - transferred to revenue	-	(61 585)
	-	-

Conditions still to be met - remain liabilities (see note 15).

Provide explanations of conditions still to be met and other relevant information.

EPWP

Current-year receipts	1 182 000	1 330 000
Conditions met - transferred to revenue	(1 182 000)	(1 330 000)
	-	-

/Conditions still to be met - remain liabilities (see note 15).

To incentivise municipalities to increase job creation efforts in infrastructure, environment and culture programmes through the use of labour-intensive methods and the expansion of job creation in line with the Expanded Public Works Programme (EPWP) guidelines.

INEP

Current-year receipts	-	1 500 000
Conditions met - transferred to revenue	-	(1 500 000)
	-	-

Conditions still to be met - remain liabilities (see note 15).

To implement the Intergrated National Electrification Programme (INEP) by providing capital subsidies to municipalities to address the electrification backlog of occupied residential dwellings, the installation of bulk infrastructure and rehabilitation and refurbishment of electricity infrastructure in order to improve quality of supply. Provide explanations of conditions still to be met and other relevant information.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
23. Employee related costs		
Basic	45 903 068	42 075 420
Bonus	3 647 739	3 435 969
Medical aid - company contributions	4 569 983	4 045 039
UIF	386 155	385 686
SDL	184 100	631 565
Defined contribution plans	399 967	374 455
Travel, motor car, accommodation, subsistence and other allowances	4 312 120	1 133 866
Overtime payments	3 067 902	2 560 076
Acting allowances	1 617 330	993 871
Housing benefits and allowances	440 963	291 721
Leave expense	1 435 644	1 231 544
Telephone allowance	410 828	167 962
Stand-by allowance	875 045	826 942
Bargaining Council	23 495	-
Workmen;s Compensation	586 996	-
Long-term benefits - incentive scheme	9 011 973	8 684 064
	76 873 308	66 838 180

Remuneration of Municipal Manager

Annual Remuneration	649 363	-
Housing Allowance	95 315	-
Car Allowance	113 135	-
Phone Allowance	12 000	-
	869 813	-

The current Municipal Manager was appointed effective 01/08/2017.

Remuneration of Acting Municipal Manager

Annual Remuneration	-	381 060
Car Allowance	-	33 915
Contributions to UIF, Medical and Pension Funds	-	40 455
Other	-	43 478
	-	182 652

The Municipality had one acting appointment during the year for the Municipal Manager position. The acting municipal manager was appointed on 01/12/2016 to 31/07/2017 from Department of Local Government North West Province. His remuneration was being paid by Local Government of North West Province.

Tswaing Local Municipality

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Figures in Rand	2018	2017
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23. Employee related costs (continued)

Remuneration of Chief Finance Officer

Annual Remuneration	37 171	-
Housing Allowance	8 000	-
Car Allowance	12 000	-
Phone Allowance	1 000	-
Remote Allowance	2 566	-
	60 737	-

The Chief Finance Officer was appointed effective 01/06/2018, he took special leave for the month June.

Remuneration of Acting Chief Finance Officer

Annual Remuneration	489 964	128 004
Housing Allowance	9 559	27 042
Car Allowance	140 148	21 055
Phone Allowance	13 200	6 551
Bonus	31 398	-
Other	7 019	-
Contributions to UIF, Medical and Pension Funds	139 248	-
	830 536	182 652

The Municipality had one acting appointment during the year for the Chief Finance Officer position. The acting CFO was appointed from 01/05/2017 to 30/06/2018.

Remuneration of Technical Services Director

Annual Remuneration	145 392	436 176
Housing Allowance	48 464	145 391
Car Allowance	48 464	149 676
Leave pay	94 214	-
Sundries	-	4 500
	336 534	735 743

Mr A.K. Dikgwatlhe resigned as the Technical Services Director effective 31/10/2017.

Remuneration of Acting Technical Services Director

Annual Remuneration	291 044	-
Housing Allowance	69 032	-
Car Allowance	69 032	-
Leave pay	15 000	-
	444 108	-

The Municipality had one acting appointments during the year for the Technical Services Director position. The Acting Technical Services was appointed from 01/11/2017 to 31/07/2018.

Remuneration of Corporate Services Director

Annual Remuneration	268 975	-
Housing Allowance	76 500	-
Car Allowance	79 823	-
Phone allowance	7 000	-
Travel Allowance	23 013	-
Professional Allowance	17 963	-

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

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Figures in Rand	2018	2017
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23. Employee related costs (continued)

473 274 **-**

The Corporate Services Director was appointed effective 01/12/2017.

Remuneration of Acting Corporate Services Director

Annual Remuneration	231 018	665 995
Housing Allowance	3 983	109 014
Car Allowance	69 700	4 407
Phone allowance	5 500	97 905
Contributions to UIF, Medical and Pension Funds	43 542	-
	353 743	877 321

The Municipality had one acting appointment during the year for the Corporate Services Director position. The acting corporate services director was appointed from 01/07/2017 to 30/11/2017.

Remuneration of Acting Community Services Director

Annual Remuneration	502 539	103 994
Housing Allowance	102 997	14 661
Car Allowance	13 200	16 268
Bonus	31 398	-
Sundries	-	16 268
Contributions to UIF, Medical and Pension Funds	107 679	16 453
	757 813	151 376

24. Remuneration of councillors

Executive Mayor	801 416	705 953
Speaker	664 644	567 659
Chief Whip	319 494	274 234
Mayoral committee members	2 301 825	2 010 506
Councillors	7 202 366	5 706 890
	11 289 745	9 265 242

In-kind benefits

The Executive Mayor, Speaker, Chief Whip and Mayoral Committee Members are full-time employees of the municipality. Each is provided with an office and secretarial support at the cost of the Council.

The salaries, allowances and benefits of the councillors as disclosed in note 25 of these annual financial statements, are within the upper limits of the framework envisaged in section 219 of the constitution, read with the remuneration of public officer bearers Act and the minister of provincial and local government's determination in accordance with this Act.

The Mayor has bodyguards and an official driver at the cost of council.

Councillors arrear consumer accounts are disclosed in the related party note, refer to note 39.

25. Depreciation and amortisation

Property, plant and equipment	27 261 556	33 252 352
Investment property	164 390	-
	27 425 946	33 252 352

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
26. Impairment of assets		
Impairments		
Property, plant and equipment	1 482 983	8 304 511
27. Finance costs		
Interest on fair value of employment benefits awards and & environmental	4 578 546	4 167 766
Interest on late payments	9 718 266	12 162 442
	14 296 812	16 330 208
28. Debt impairment		
Contributions to debt impairment provision	(93 611 463)	37 651 434
Bad debts written off	148 980 430	-
	55 368 967	37 651 434
29. Bulk purchases		
Electricity	32 406 406	31 883 089
Water	4 969 100	703 756
	37 375 506	32 586 845
30. Contracted services		
Contracted Services	6 783 364	5 246 428

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
31. General expenses		
Accounting fees	456 380	-
Advertising	493 521	173 003
Auditors remuneration	3 490 032	2 607 591
Bank charges	309 467	391 353
Cleaning	-	205 138
Commission paid	2 536 510	1 064 097
Computer expenses	126 922	-
Consulting and professional fees	12 666 766	3 466 298
Consumables	1 737 615	433 945
Delivery expenses	-	283 562
Discount allowed	-	1 848 434
Fines and penalties	-	36 895
Gifts	-	36 522
Hire	21 150	-
Insurance	816 576	989 231
Community development and training	676 643	2 247 759
IT expenses	2 536 000	2 533 000
Magazines, books and periodicals	-	(17 957)
Motor vehicle expenses	1 402 431	86 500
Packaging	-	9 295
Fuel and oil	2 202 355	531 201
Placement fees	2 469 865	-
Printing and stationery	746 413	712 043
Promotions	-	145 897
Protective clothing	445 728	127 720
Subscriptions and membership fees	859 578	1 487 324
Telephone and fax	1 961 227	2 314 732
Transport and freight	75 434	-
Training	-	319 227
Travel - local	1 097 368	1 565 632
Refuse	-	104 016
Assets expensed	-	3 600
Electricity	-	269 860
Sewerage and waste disposal	-	2 074
Water	-	1 525
Unallocated vat input	-	6 317
Catering Services	63 697	-
Industrial council levy	-	22 779
MIG Grant	-	3 814 763
Commission paid	-	2 190 716
Electricity purchase: small amounts	5 805 898	3 236 669
Financial management grant	-	5 672 622
Venue expenses	-	3 473
Mayoral projects	-	164 298
Other expenses	112 000	1 731 500
	43 109 576	40 822 654
32. Fair value adjustments		
Other financial assets		
• Other financial assets (Held for trading)	1 629	-
33. Auditors' remuneration		
Fees	3 490 032	2 607 591

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2018

Notes to the Annual Financial Statements

Figures in Rand	2018	2017
34. Operating surplus (deficit)		
Operating surplus (deficit) for the year is stated after accounting for the following:		
Operating lease charges		
Equipment		
• Contractual amounts	430 770	675 661
Loss on sale of property, plant and equipment	(217 385)	(4 430 921)
Impairment on property, plant and equipment	1 482 983	8 304 511
Gains on biological assets and agricultural produce	(125 300)	(581 134)
Depreciation on property, plant and equipment	27 425 946	33 252 352
Employee costs	88 163 051	76 103 426
35. Cash generated from operations		
Deficit	(4 032 494)	(52 000 331)
Adjustments for:		
Depreciation and amortisation	27 425 946	33 252 352
Gain on biological assets	(125 300)	-
Actuarial loss	-	2 119 000
Loss on disposal	217 385	167 440
Donations Income	(38 675 195)	-
Fair value adjustments	(1 629)	-
Impairment loss	1 482 983	8 304 511
Debt impairment	55 368 967	19 498 786
Movements in provisions	2 770 480	(116 337)
Changes in working capital:		
Inventories	(215 019)	1 661 987
Receivables from exchange transactions	(491 197)	(101 547)
Receivables non exchange	(46 051 586)	(39 330 197)
Other receivables from exchange transactions	33 529 542	(95 912)
Payables from exchange transactions	9 337 748	24 106 398
VAT	11 373 921	5 079 309
Unspent conditional grants and receipts	(8 865 484)	8 146 263
Consumer deposits	39 755	49 174
	43 088 823	25 877 569
36. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	16 891 154	19 701 388
Total capital commitments		
Already contracted for but not provided for	16 891 154	19 701 388
Authorised operational expenditure		
Already contracted for but not provided for		
• Financial Statements Preparation	3 025 912	-
Total operational commitments		
Already contracted for but not provided for	3 025 912	-

This committed expenditure relates to plant and equipment and will be financed by existing cash resources and grant income..

Tswaing Local Municipality

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37. Contingencies

Court Proceedings:

Municipality is being sued for some of the following pending claims. All the claims are being contested based on legal advice.

The certainty and the timing of the outflow of these liabilities is uncertain.

The following cases listed below are pending and there is no reasonable estimate for future outflow amounts;

Braeytenbach for Eviction
G.B DisipiMVA for Damages
S.T Mahanoe for labour
J.M Venter for contempt
M Buys and others for labour

The amounts disclosed below are possible outflows amounts based on the lawyers:

Litigation and claims

Bri-corp(PTY)ITD for contractual claim the contractor failed to pay the supplier and the supplier sued the municipality	-	500 000
Thabang New business technology contractual claim the contractor appointed for a road project failed to perform and sued the municipality	-	2 500 000
Prestige Panel Beaters for damages a municipality owned vehicle was taken to the panel beater for repairs but storage fees were not paid, they being sued for it.	-	250 000
G.M Mothusi for damages municipality workers were cutting trees, which fell on Mr Mothusi's wall.	-	60 000
Ansie Styn Trust for servitude claim information was requested on rates, which the municipality delayed to submit	-	500 000
K.S Mere for arbitration an urgent application from Scholtz Attorneys was received and a drafting of the affidavit.	-	200 000
KS Mere opened a case against the municipality , a notice of set-down was received from CCMA	-	200 000
K.S Mere a court case of unfair dismissal was continuing against KS Mere	-	200 000
New boss construction was awarded a tender for construction Of Deelpan Community Hall and the total project amount was R 5 461 909.52, out of that amount only R 4 504 214	-	957 696
Babala and others the municipality is reviewing the award	-	250 000
Pholoholo the municipality is being sued for the loss of life	-	150 000
F Nacela the municipality is suing the respondent for the unlawful occupation of land	-	350 000
B Smith the municipality is reviewing the award	500 000	250 000
Molene the municipality is reviewing the award	400 000	250 000
Kuyalunga Traffic Solutions is suing the municipality for damages arising out of terminating the contract.	1 113 000	-
Mr Ramphele is suing the municipality over reserved senior manager appointments.	4 450 840	-
is allegign that themunicipality is indebted to them for services rendered (Honey Sucking)	2 829 224	-

9 293 064	6 617 696
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38. Related parties

Relationships

Members of key management

Accounting Officer

Acting Technical Director

Technical Director

Acting Community Services Director

Acting Community Services Director

Corporate Services Director

Acting Corporate Services Director

Chief Finance Officer

Acting Chief Finance Officer

Mayor

Speaker

Chief Whip

Councillors

Mr M. Moruti

Ms G.O. Moipolai (01/11/2017 - 30/08/2018)

Mr Dikgwatlé (01/07/2017 - 31/10/2017)

Mr S.B. Moeti (from 01/04/2018)

Mr M.D. Morwe (01/07/2017 - 31/03/2018)

Mrs V.K. Ndongeni (from 01/12/2017)

Mrs O. Monaheng (01/07/2017 - 30/11/2017)

Mr R.E. Mogoje (From 01/06/2018)

Mrs S. Pelele (01/08/2017 - 30/06/2018)

Hon Cllr L Malwane

Hon Cllr UP Lobelo

Hon Cllr AN Noko

Cllr L Bome

Cllr SV Moremedi

Cllr MM Moreo

Cllr KE Blou

Cllr ST Lerumo

Cllr AT Modise

Cllr B Phutiyagae

Cllr NJ Molehabangwe

Cllr TE Chabanku

Cllr TS Tsholo

Cllr ME Booi

Cllr MS Letlakane

Cllr AT Mabovu

Cllr PM Mokoto

Cllr TD Mthimkulu

Cllr OJ Makalela

Cllr TA Morei

Cllr S Viljoen

Cllr EM Thobengani

Cllr TP Miga

Cllr JK Magwejane

Cllr LY Taljaard

Cllr GE Kgasu

Cllr KC Seduko

Cllr GB Madebe

Cllr JH Botha

Kgosi JEF Molete

Kgosi C Moshoele

The above key management's salaries are disclosed in note 24 and 25.

Related party balances

Receivables - Owing by councillors

AT Mabovu	24 421	41 777
AL Noko	3 872	4 447
AM Motjale	-	7 825
MS Letlakane	10 978	29 417
NJ Molehabangwe	12 037	24 696
TE Chabanku	1 767	4 167
ME Booi	13 664	43 265
TD Mthimkulu	-	33 012
T Morei	-	26 971
KC Seduko	-	40 566
GB Madebe	-	32 804
JH Botha	1 310	1 346

Tswaing Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2018	2017
38. Related parties (continued)		
L Bome	6 093	-
MM Moroe	10 877	-
S Viljoen	12 955	-
Related party transactions		
Grant and subsidies received from State Organs		
National Treasury : Equitable share	88 403 000	85 712 000
North West Department of Public Works : EPWP	1 182 000	1 330 000
Department of Culture, Arts and Traditional Affairs : Library grant	1 710 000	1 660 000
COGTA : Municipal Infrastructure Grant	39 730 000	27 939 000
COGTA : MSIG	-	750 000
National Treasury : Financial Management Grant	2 345 000	2 010 000
Ngaka Modiri Molema District Municipality: Operational Grant	4 000 000	-

39. Risk management

Financial risk management

The Accounting Officer has overall responsibility for the establishment and oversight of the Municipality's risk management framework. The Municipality's risk management policies are established to identify and analyse the risks faced by the Municipality, to set appropriate risk limits and controls and to monitor risks and adherence to limits.

Due to the 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 Department Financial Services 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 the internal auditors on a continuous basis, and annually by external auditors. The Municipality does not enter into or trade financial instruments for speculative purposes.

The entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the entity's financial performance. The entity uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the . Entity treasury identifies, evaluates and hedges financial risks in close co-operation with the entity's operating units. The provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Tswaing Local Municipality

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39. Risk management (continued)

Liquidity risk

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

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.

As at 30 June 2018	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	150 242 007	0	0	0
Vat payable	26 402 177	0	0	0
As at 30 June 2017	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	140 904 259	0	0	0
Vat payable	15 028 256	0	0	0

Credit risk

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

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

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	2018	2017
Receivables from exchange transactions	18 523 274	27 840 654
Bank balances and cash	93 848	301 294

Market risk

Tswaing Local Municipality

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39. Risk management (continued)

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. There has been no change to the Municipality's exposure to market risk on the manner in which manages.

Financial instrument	2018	2017
Investments - Listed shares designated at fair value	568 820	567 191

Interest rate risk

As the entity has no significant interest-bearing assets, the entity's income and operating cash flows are substantially independent of changes in market interest rates.

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.

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..

Post-tax surplus for the year would increase/decrease as a result of gains or 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 or losses on equity securities classified a available-for-sale.

40. Going concern

We draw attention to the fact that at 30 June 2018, the entity had a deficit of R 4 032 495 and that the entity's total current liabilities exceed its current assets by R 149 730 101.

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.

41. Fruitless and wasteful expenditure

Balance brought forward	26 367 746	13 211 301
Current year	9 718 266	13 156 445
	36 086 012	26 367 746

There was no fruitless and wasteful expenditure written off or recovered during the financial year. Expenditure incurred resulted from interest and penalties paid on late payments of suppliers.

Investigation of the above has not yet been undertaken. No criminal or disciplinary steps have been taken as a consequence of the above expenditure.

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42. Irregular expenditure		
Balance brought forward	166 066 244	134 967 545
Current year	57 179 483	31 098 699
	223 245 727	166 066 244

Details of irregular expenditure

Current year	223 245 727	166 066 244
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Irregular expenditure is as a result of non compliance with supply chain management regulations and legislation. There was no irregular expenditure condoned, written off or recovered during the financial year. Investigation of the above has not yet been undertaken. No criminal or disciplinary steps have been taken as a consequence of the above expenditure.

43. Material losses

The municipality incurred losses in distribution of electricity amounting to 2018: R 22 427 769 (2017: R12 601 085). The distribution losses incurred for the distribution of water could not be ascertained as the municipality do not buy water as they use natural water from boreholes. Therefore it is impracticable to measure natural water source from the reservoirs.

44. Budget differences

Material differences between budget and actual amounts

The differences between budget and actual amounts have been detailed below and explanations were provided for material balance movements the differences are detailed in the Statement of Comparison of Budget and Actual Amounts.

Explanations ;

N1 - The budget amount is more than actual as a result of overbudgeting..

N2 - Budget amount is more than actual as the traffic office in Delareyville had to close after it was vandalised during community protests which occurred in April this year. Traffic office was closed for 3 months.

N3 - Budgeted amount was less than the actual amount due to under budgeting.

N4 - Budget amount was less than the actual due to under budgeting.

N5 - Budget amount is less than actual due to additional grant received from MIG.

N6 - This was not budgeted for as it was at the discretion of the department/company making the donations.

N7- The budget amount is more than actual as the municipality had planned to fill vacant posts during the year but this did not happen.

N8 - The budget amount is less than actual due to under budgeting.

N9 - The budget amount is less than actual as depreciation due to the donated assets received.

N10 - This was not budgeted for as it is an accounting entry.

N11 - This was not budgeted for as the Municipality did not anticipate having arrears on its overdue accounts.

N12 - The budget amount is more due to overbudgeting.

N13 - The budget amount is less as there were debt write-offs performed in the current year.

N14 - The budget amount is more than actual as the Municipality had cashflow constraints.

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44. Budget differences (continued)

N15 - The budget amount is less than actual as additional bulk water services had to be performed for the community after the District Municipality could not perform these functions.

N16 - The budget amount is less than actual as the Municipality needed additional assistance due to MSCOA implementation.

N17 -p The budget amount is less to the actual due to under budgeting.

45. Gains or losses on biological assets

Gains or losses arising from a change in fair value	125 300	581 134
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46. Unauthorised expenditure

Balance carried forward	192 558 943	106 563 155
Current year	66 209 110	85 995 788
	258 768 053	192 558 943

No criminal or disciplinary steps have been taken as a consequence of above expenditure. The total balance including the opening balance will be dealt with in accordance with the MFMA requirements.

47. Prior period errors

In terms of GRAP 3 - Accounting policies, Changes in Estimates and Errors all prior period errors should be disclosed in accordance to the standards:

During the current period adjustments were processed for the previous financial periods. The overall difference for 2017 financial year below reflects the adjustments.

The correction of the error(s) results in adjustments as follows.

1. Receivables from exchange and interest income were understated by R 5 635 as a result of monies owed to the Municipality by legal counsel.

2. Trade receivables from non-exchange and accumulated surplus were understated by R 22 826 900 as a result of property rates not billed on the Department of Public Works accounts. .

3. Trade receivables from non-exchange and accumulated surplus were overstated by R 268 687 amounts that the Municipality was incorrectly billing itself.

4. Trade receivables from exchange have decreased by R 3 716 646, Service charge revenue decrease by R 1 354 405 and Opening retained earnings decreased by R 2 363 241 as a result of the municipality incorrectly billing itself service charges in 2016/17 and prior years.

5. Investment property and accumulated surplus was understated by R 2 995 130 as a result of investment property belonging to the Municipality that was not recognised.

6. Employee costs and Creditors were understated by R 100 000 as a result of acting allowances not accrued for in the prior year.

7. Depreciation and Accumulated Depreciation were understated by R 1 113 681 as a result of donated assets that were not accounted for in the prior year, therefore not depreciated.

8. Impairments losses and accumulated impairments were overstated by R 89 718 as a result of the incorrect treatment of impairing assets.

9. Repairs and maintenance and creditors were understated by R 209 606 as a result of services not accounted for/ accrued in the prior year.

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47. Prior period errors (continued)

10. The donations income and PPE were understated as a result of donations received from The Department of Culture, Arts and Traditional Affairs of movable assets for the Municipality's libraries. The donation documents were received late, therefore could not be capitalised in the prior year. The amount is 726 899.

11. Bulk purchases and creditors were understated by R 45 325 as a result of invoices not accrued for.

12. General expenses and creditors were understated by R 238 769 as a result of invoices not accrued for.

13. Contracted Services and Creditors were understated by R 471 487 as a result of invoices not accrued for.

14. PPE and disposal losses are understated as a result disposals not recorded in the general ledger.

15. VAT payable and creditors were understated by R 56 840 as a result of accruals not processed.

16. Commitments were overstated by R 8 908 257 because completed projects were not removed from the commitments register.

17. Updates to the PPE Immovables disclosure were made as a result of changes to the standard.

Statement of financial position

Receivables from exchange transactions	5 635	-
Trade receivables from non-exchange	22 558 213	-
Trade receivables from exchange transactions	(3 716 646)	-
Investment property	2 995 130	-
Property, plant and equipment	5 059 345	-
Payables from exchange transactions	(5 290 531)	-
VAT payable	(56 840)	-
Accumulated surplus	32 249 048	-

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47. Prior period errors (continued)

Statement of Financial Performance

Services charges		(1 354 405)	-
Licences and permits		1 830	-
Other income		(223 142)	-
Interest received - investment		5 635	-
Donations		726 899	-
Fines		223 142	-
Employee related costs		(100 000)	-
Repairs and maintenance	-	(209 606)	-
Bulk purchases	-	(45 325)	-
Impairments	-	89 718	-
Contracted services	-	(471 487)	-
General Expenses	-	(238 769)	-
Depreciation and amortisation		(1 113 681)	-
(Loss)/Gain on disposal of assets and liabilities		(72 279)	-

Statement of financial performance

Reclassification of expenses resulting in increase in contracted services expenditure and decrease in general expenditure

Disclosure

	Previously disclosed in 2017	Amount of correction	Restated 2018
Increase in commitments	28 609 645	(8 908 257)	19 701 388
Subtotal	28 609 645	(8 908 257)	19 701 388
	28 609 645	(8 908 257)	19 701 388

Cash flow statement

48. Additional disclosure in terms of Municipal Finance Management Act

Audit fees Auditor General

Opening balance	(528 916)	-
Current year accrual	(1 880 425)	-
Amount paid - current year	(2 421 395)	-
Amount paid - previous years	-	(528 915)
	(4 830 736)	(528 915)

PAYE, SDL and UIF

Opening balance	(3 798 350)	-
Current year accrual	(12 702 782)	-
Amount paid - current year	2 366 716	-
Amount paid - previous years	-	(3 798 350)
	(14 134 416)	(3 798 350)

South African Local Government Association

Opening balance	(780 846)	-
Current year accrual	(831 006)	-
Amount paid - current year	780 846	-
Amount paid - previous years	-	(780 846)
	(831 006)	(780 846)

Tswaing Local Municipality

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48. Additional disclosure in terms of Municipal Finance Management Act (continued)

VAT

VAT payable	26 402 177	15 028 256
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All VAT returns have been submitted by the due date throughout the year.

49. Awards made to family members of persons in service of the state

Employee Name	Employee Position	Supplier Name	Name of close family member	Relationship to employee	Award Date	Award Amount
Mrs B. Malothane	Cashier	Momotheka 1131 (Pty) Ltd	Mr MS Malothane	Spouse	09/04/2018	R 5 180 340