



MADIBENG LOCAL MUNICIPALITY
Annual Financial Statements
30 June 2020

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

General Information

Nature of the business and principal activities

The Madibeng Local Municipality is a category B local municipality established in terms of section 151 of the Constitution of the Republic of South Africa 1996

Executive Mayor

Hon. JM Mothibe

Chairperson of MPAC

Cllr. E Diale

Mayoral committee

Cllr. MM Machete (Public Safety and Facilities Management)
Cllr. DS Maimane (Local Economic Development)
Cllr. NM Maqakamba (Inter-Governmental Relations and Special Programmes)
Cllr. SM Mauntlala (IDP PMS and Legal services)
Cllr. ETM Modise (Corporate Support Services)
Cllr. SDN Nthangeni (Budget and Treasury Office)
Cllr PA Phethe (Roads and Transport)
Cllr. J Ratloi (Infrastructure and Technical services)
Cllr. J Sefudi (Planning and Human Settlements)
Cllr. M Tlhopane (Community Development)

Chief Whip

Cllr. PB Makgabo

Councillors

Cllr. MZ Banda

Cllr. EJ Edward

Cllr. TS Bogale

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Cllr. RNJ Breytenbach
Cllr. RE Dikgang
Cllr. M Du Plessis
Cllr. BP Gous
Cllr. HJ Gobbelaar
Cllr. KS Komane
Cllr. EDF Lourens
Cllr. ML Mabokachaba
Cllr. NS Mabunda
Cllr. S Malia
Cllr. ML Makgale
Cllr. AWS Malatse
Cllr. II Maledu
Cllr. CM Mampuru
Cllr. OD Marapyane
Cllr. FM Masemola
Cllr. BA Maubane
Cllr. PK Mawayi
Cllr. LG Mhlambi
Cllr. JT Moabi
Cllr. TM Modiha
Cllr. JM Modipane
Cllr. AM Modisakeng
Cllr. TJ Mohlanane
Cllr. RR Mohulatsi
Cllr. MA Mokgoko
Cllr. RA Mokone
Cllr. T Mokwena
Cllr. DM Molekoa
Cllr. MS Moloji
Cllr. AI Molotsi
Cllr. ED Montsho
Cllr. MD Morapedi
Cllr. OP Mosielele
Cllr. J Mosito
Cllr. MD Mosolodi
Cllr. MW Motswai
Cllr. BR Motswai
Cllr. NB Mhlanga
Cllr. WJ Muller
Cllr. EM Nkoe
Cllr. RP Padi
Cllr. EL Phago
Cllr. HT Phalwane
Cllr. J Pieterse
Cllr. P Pretorius
Cllr. AS Rakomane
Cllr. WS Ramaboa
Cllr. MM Ramahofu
Cllr. MM Ramila
Cllr. AD Ratlou
Cllr. GJ Rossouw
Cllr. MG Sadikge
Cllr. C Seabi
Cllr. MM Sekgothe
Cllr. CS Sekhoto
Cllr. KM Shalang
Cllr. GF Sithole
Cllr. EE Tanke
Cllr. P Thubisi
Cllr. KS Tlapu
Cllr. P Tshoela
Cllr. E Van der Schyff
Cllr. JC Van Rhyn

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General Information

	Cllr. EJ Barlow
Speaker	Cllr. KS Ntshabele
Accounting Officer	Mr. N Maape
Chief Finance Officer (CFO)	Mr T Lefutswe
Registered office	53 Van Velden Street Brits 0250
Postal address	PO Box 106 Brits 0250
Bankers	First National Bank
Auditors	Auditor General South Africa
Level of assurance	These annual financial statements have been audited in compliance with the applicable requirements of the Municipal Finance Management Act 56 of 2003.

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The reports and statements set out below comprise the annual financial statements presented to the municipal council:

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MSCOA	Municipal Standard Chart Of Accounts
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
PIC	Public Investment Corporation
SARS	South Africa Revenue Services
VAT	Value Added Tax
FMG	Finance Management Grant
INEP	Integrated National Electrification Programme
EPWP	Expanded Public Works Programme
DORA	Division of Revenue Act
UIF	Unemployment Insurance Fund
SDL	Skills Development Levy
CFO	Chief Finance Officer
NPV	Net Present Value
PV	Present Value
VBS	Venda Building Society Mutual Bank

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Accounting Officer's Responsibilities and Approval

The accounting officer is required by the section 126(1) of the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data

I am responsible for the preparation of the preparation of these annual financial statements, which are set out on pages 10 to 78, in terms of section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the municipality..

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 June 30, 2021 and, in the light of this review which considered the impact of Covid-19 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 municipality is substantially dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the operations.

The accounting officer certify that the salaries, allowances and benefits of the councilors, loans made to councilor, if any, and payments made to councilors for loss office, if any, as disclosed in note 35 of these annual financial statements are within the upper limits of the framework envisioned 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 annual financial statements were not submitted to the Auditor-General within two months after the financial year end i.e. 31 August 2020, in accordance with section 126(1)(a) of the Municipal Finance Management Act, 2003 (Act No. 5 of 2003). This was due to the impact of Covid-19 lockdown regulations which led to the Minister of Finance, through Government Notice No. 851, to exempt municipalities from complying with section 126(1) of the MFMA. The exemption granted municipalities two months extension to submit annual financial statements by the 31 October 2020.

The annual financial statements set out on page 11, which have been prepared on the going concern basis, were approved by the Accounting Officer on and were signed on its behalf by:

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Annual Financial Statements for the year ended June 30, 2020

Audit Committee Report

We are pleased to present our report for the financial year ended June 30, 2020.

Mandatory Role of the Audit Committee

Section 166 of the MFMA (Act No. 56 of 2003) clearly states that each municipality must have an Audit Committee. The Audit Committee is an independent advisory body that advises council, political office bearers, accounting officer, and staff of the municipal on the following:

Internal financial control and internal audits;

Risk managements;

Accounting policies

The adequacy, reliability, and accuracy of financial reporting and information

Performance management;

Effective governance;

Compliance with the MFMA, the Division of Revenue Act (DoRA) and any other applicable legislation;

Performance evaluation;

Any other issues referred to by the municipality;

Review annual financial statement so as provided authoritative and credible view of the financial position, on overall compliance with MFMA, DoRA and other applicable legislations.

Respond to Council on any matter raised by Auditor-General (AGSA); and

Carry out such investigation into financial affairs of the municipality as may be prescribed from time to time.

Terms of Reference

The Audit Committee has adopted its written terms of reference included in the Audit Committee Charter approved by the Council

Audit committee members and attendance

The Audit Committee consists of five (5) external members who have been appointed by the Council in August 2018 as per council resolution A. 0364. The following illustrate the number of meeting attended by each member.

Name of member	Number of meetings attended
Mrs F Mudau (Chairperson)	10
Mr V Chuene	10
Mr F Mokhabela	7
Mr J Matsho	9
Mr L Mohalaba	8

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Audit Committee Report

Effectiveness of internal Audit and internal controls

The Madibeng Local Municipality (MLM) has a functional Internal Audit Function reporting functionally to the Audit Committee and administratively to the Accounting Officer. The Chief Audit Executive has unrestricted access to the Chairperson of the Audit Committee to ensure independence of the function.

The Audit Committee is of the opinion that Internal Audit Function is operating satisfactorily to meet its mandate and has considered the risk pertinent to the municipality in their audit plans. The following activity reports were approved by the Audit Committee during the year:

- Three-year rolling internal audit strategic 2022 and operational plan 2020
- Internal Audit Charter to affirm its role, responsibilities and authority

Internal Audit reports regularly in the Audit Committee in its quarterly and special meetings

Internal control is a process for assuring the achievements of an organisation's objectives in operational effectiveness and efficiency, reliable financial reporting and compliance with laws and regulations.

The revised audit plan has been executed 100% for the year despite scope limitation on Revenue and Debtors Management. The following audits were executed by internal audit and reports issued to management and audit committee:

Supply Chain Management

Annual Financial Statements Review

Annual Stock count

Risk management

Governance Review

Covid 19 Compliance Review

Records Management Follow up

Information and Communication Technology Audit Review

Distribution Losses Management

Water Quality Management Consulting Review

The Audit Committee can assert that the system of internal control was partially adequate and effective during the year under review as compliance with the prescribed policies and procedures were lacking in most instances.

The Committee further noted that the impact of COVID 19 on the effective and efficient operation of the municipality in the discharge of its constitutional mandate to the community of Madibeng. The Committee urged the Internal Audit function to fully utilize the ICT infrastructure in the discharge of their functions to add value to the accomplishment of the municipality's objectives. The Audit Committee further implores in the management of the municipality to implement all Internal Audit recommendations in order to improve the overall control environment and the governance of IT risks in the institution.

Effectiveness of risk management

The Accounting officer is responsible for the establishment of an effective system of risk management within the municipality that is aligned to the principles of good corporate governance as supported by the MFMA Act of 56 of 2003 and King IV..

The Risk and Committee is headed by an External Chairperson who meet with management and Internal Audit regularly. The Municipality has approved a risk management enabling documents (risk management policy, strategy, risk management action plan) and frameworks to discharge enterprise risk management effectively. The Integrity Management Framework as promulgated is in draft format and has been recommended to Council for adoption. The following were the top 10 strategic risks for the municipality.

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Audit Committee Report

Effectiveness of performance management system

The municipality reviewed quarterly performance management reports submitted by management. There was a delay in submitting the performance reports by some of the Directorates to the Internal Audit on time, leading to delays in the auditing process. The Accounting Officer is kept responsible to ensure that the senior managers takes the PMS very serious and the reports are submitted when they fall due. Furthermore, senior managers were not assessed for the most part of the financial year, which might lead to another recurring finding by the Auditor-General.

Furthermore, the Audit Committee found that the findings raised by Internal Audit on performance related matters were repeat findings which gave an impression that the recommendations of the Internal Audit have not been adequately implemented by management. The Committee therefore implores the Administrator and the Acting Municipal Manager to encourage management to take institutionalise PMS and fully implement the Internal Audit recommendations.

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Annual Financial Statements for the year ended June 30, 2020

Audit Committee Report

Quality of monthly/quarterly financial reporting

The Audit Committee was privy to some of monthly financial reports (Sec 71 reports) Budget and Treasury Office (BTO) for the financial year under review.

The Audit Committee is concerned by the capacity of the BTO following the Auditor General of South Africa's report on the state of municipalities. Of grave concern is that the municipality spent in excess of R30 million towards consulting fees in the Budget and Treasury Office without any significant benefits seeing that the municipality has been receiving a disclaimed audit opinion for the past four audit cycles. Management needs to seriously consider if it is deriving benefit from consultants seeing that the Budget and Treasury Office is fully capacitated in terms of personnel and implore them to fully commit to bring change to the municipality.

The Audit Committee has advised the Management and the Council to monitor the performance of consultants within the budget and Treasury Office and where poor performance is observed the municipality should consider reviewing these contracts. Furthermore, BTO should consider establishing standard operating procedure and financial controls (manual and automated) to manage the finances more effectively.

Combined assurance

The municipality has a Combined Assurance Framework and Policy approved by the Council. During the financial year, Combined Assurance Committee was appointed. However, the implementation of the Assurance Framework has been hindered by COVID 19 pandemic. Management is implored to continue with the implementation in the new financial year.

Review of the Annual Financial Statements

The Audit Committee has in consultation with management reviewed the following:

- Audit engagement letter and audit strategy;
- The Annual Performance report;
- Audited Annual Financial Statements to be included to the Annual Report; and
- Significant adjustments resulting from the audit.

Auditor General of South Africa's management letter and management response

Of particular concern to the Audit Committee was the late submission of the Annual Financial Statements to the Auditor General of South Africa even though management had indicated that the audit file would be ready for submission to the AGSA. The Audit Committee pleaded with management to ensure that the submission of Annual Financial Statements should never be an issue considering the amount of money that the municipality is spending on consultants for the compilation of the financial statements. Furthermore, the Committee implored the Accounting Officer to take action against those that were responsible for late submission of the Annual Financial Statements including non implementation of Internal Audit recommendations related to the Annual Financial Statements review. which resulted in repeat findings in the management report and audit report of the municipality..

Appreciation

The Audit Committee expresses its sincere appreciation to the office of the Executive Mayor, Speaker, Chief Whip, Acting Municipal Manager, Management and all officials for the unwavering support and interest in the activities of the Committee during the year under review. The advice and support of advise and support of other stakeholders such as the Internal Audit Function, Auditor-General South Africa, Provincial Treasury and the Provincial Department: Local Government and Human Settlement is also acknowledged in pursuing the interest of the effective Corporate Governance and clean audit outcomes with the municipality.

We extend our gratitude to the Internal Audit unit for their efforts during the year despite resources constraints and other frustrations they might have encountered. The Audit Committee remains confident of the matters raised in the this report receiving due consideration and intervention by the new Council. We are committed to fully execute our oversight function and in strengthening Corporate Governance.

Chairperson of the Audit Committee

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Annual Financial Statements for the year ended June 30, 2020

Accounting Officer's Report

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

1. Review of activities

Main business and operations

The municipality is engaged in municipal services and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached annual financial statements .

2. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of 4,102,422,948 and that the municipality's total assets exceed its liabilities by R 4,102,422,948.

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

The Municipality approved an unfunded budget for the 2019/20 financial year to address the issue, a financial plan was prepared and tabled the Council to deal with the issue at hand.

3. Subsequent events

After the end of the 30 June 2020. A new acting CFO was appointed.

4. Accounting Officer's interest in contracts

The Accounting Officer has no interest in contracts awarded.

5. Accounting policies

The annual financial statements prepared 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. COVID 19 Impact

During the financial year, the coronavirus pandemic was declared a national disaster due to its rising rate and scale of infections observed. Furthermore on 23 March 2020 the President of the Republic announced a national lockdown initial for a period of 3 weeks. At year end management assessed the impact of this pandemic on income, expenditure, assets and liabilities no material effects were identified in these balances .

7. Corporate governance

The Council

The Council

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality;

Fruitless and wasteful expenditure

The current year fruitless and wasteful expenditure amounting to R17 364 909.41 relates to interest charge on late payment of invoices from Eskom, Rand Water (R363 154.23), Auditor-General South Africa (R672 961.88), City of Tshwane (R4 468 799.40) and SARS (R97 215.57) and Department of Water and Sanitation (R3 011 710.95)

Remuneration

The remuneration of the Accounting Officer and section 56 managers are determined by the upper limits for the senior managers.

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Accounting Officer's Report

Audit committee

Mrs F Mudau was the chairperson of the audit committee for the financial year under review.

In terms of Section 166 of the Municipal Finance Management Act, the municipality, must appoint members of the Audit Committee. National Treasury policy requires the municipalities should appoint further members of the municipality's audit committees who are not councilors of the municipality onto the audit committee.

Internal audit

The municipality has an independent internal audit function. This is in compliance the Municipal Finance Management Act, 2003.

The chief audit executive is Mr. M. Mmapheto

8. Bankers

The Municipality primary bank is First National Bank.

9. Auditors

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

10. Public Private Partnership

During the financial period under review, Madibeng Local Municipality did not enter into any public Private Partnerships.

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Annual Financial Statements for the year ended June 30, 2020

Statement of Financial Position as at June 30, 2020

Figures in Rand	Notes	2020	2019 Restated*
Assets			
Current Assets			
Inventories	7	23,641,180	16,432,806
Other financial assets	11	7,288,733	13,225,781
Receivables from non-exchange transactions	9	82,008,751	14,697,700
Prepayments	27	-	7,268,710
Receivables from exchange transactions	8	212,185,669	200,164,213
Cash and cash equivalency	10	260,690,605	51,584,328
		585,814,938	303,373,538
Non-Current Assets			
Investment property	3	97,285,000	100,450,000
Property, plant and equipment	4	5,277,427,817	5,452,099,164
Intangible assets	5	2,330,245	3,964,094
Heritage assets	6	10,100	10,100
		5,377,053,162	5,556,523,358
Total Assets		5,962,868,100	5,859,896,896
Liabilities			
Current Liabilities			
Finance lease obligation	28	5,106,176	5,106,176
Operating lease liability	16	19,242,017	27,699,640
Payables from exchange transactions	12	1,446,479,564	1,107,312,928
VAT payable	13	529,702	2,009,398
Consumer deposits	14	40,046,822	40,802,525
Unspent conditional grants and receipts	15	141,774,782	16,903,048
		1,653,179,063	1,199,833,715
Non-Current Liabilities			
Finance lease obligation	28	-	2,806,540
Employee benefit obligation	17	183,739,011	177,984,155
Provisions	18	23,527,078	16,789,837
		207,266,089	197,580,532
Total Liabilities		1,860,445,152	1,397,414,247
Net Assets		4,102,422,948	4,462,482,649
Accumulated surplus		4,102,422,948	4,462,482,649

* See Note 43

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Annual Financial Statements for the year ended June 30, 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	754,582,160	735,152,383
Rental of facilities and equipment	24	1,211,724	1,091,034
Licences and permits	51	5,671,150	6,644,262
Commissions received	20	11,009,754	13,215,741
Other operational revenue	22	8,132,008	11,146,582
Interest received from debtors	21	130,798,400	85,965,215
Interest received from investments	21	3,976,364	5,843,411
Total revenue from exchange transactions		915,381,560	859,058,628
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	25	338,145,245	240,064,016
Transfer revenue			
Government grants & subsidies	26	861,466,207	859,945,089
Fines, Penalties and Forfeits	52	4,091,034	155,322
Total revenue from non-exchange transactions		1,203,702,486	1,100,164,427
Total revenue	29	2,119,084,046	1,959,223,055
Expenditure			
Employee related costs	34	(569,816,211)	(500,979,429)
Remuneration of councillors	35	(31,862,041)	(31,043,360)
Depreciation and amortisation	33	(322,613,883)	(333,767,326)
Finance costs	36	(40,132,189)	(13,020,585)
Lease rentals on operating lease	38	(88,331,771)	(90,908,322)
Debt Impairment	32	(434,170,002)	(118,701,905)
Bulk purchases	30	(590,290,736)	(783,897,547)
Contracted services	31	(148,807,377)	(141,470,178)
Transfers and Subsidies		(455,828)	(43,821)
Other Operational Expenses	37	(249,559,535)	(253,493,444)
Total expenditure		(2,476,039,573)	(2,267,325,917)
Operating deficit	55	(356,955,527)	(308,102,862)
Loss on disposal of assets and liabilities		(9,840,613)	(15,721,053)
Fair value adjustments	23	(144,922)	7,175,211
Actuarial gains/losses	17	50,732,079	27,093,532
(Loss) gain on biological assets and agricultural produce		(6,737,241)	12,696,132
		34,009,303	31,243,822
Deficit for the year		(322,946,224)	(276,859,040)

* See Note 43

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Annual Financial Statements for the year ended June 30, 2020

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at July 1, 2018	4,739,341,689	4,739,341,689
Changes in net assets		
Deficit for the year	(276,859,040)	(276,859,040)
Total changes	(276,859,040)	(276,859,040)
Restated* Balance at July 1, 2019	4,425,369,172	4,425,369,172
Changes in net assets		
Deficit for the year	(322,946,224)	(322,946,224)
Total changes	(322,946,224)	(322,946,224)
Balance at June 30, 2020	4,102,422,948	4,102,422,948

* See Note 43

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Annual Financial Statements for the year ended June 30, 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Rates & Taxes		195,472,822	190,431,101
Sale of goods and services		419,482,185	214,043,591
Grants		861,466,207	859,945,089
Interest income		3,976,364	5,843,411
Other receipts		26,024,636	32,097,619
		<u>1,506,422,214</u>	<u>1,302,360,811</u>
Payments			
Employee costs		(596,274,819)	(532,022,788)
Suppliers		(582,546,253)	(604,471,683)
Finance costs		(332,960)	(721,711)
Other payments		(455,828)	(43,821)
		<u>(1,179,609,860)</u>	<u>(1,137,260,003)</u>
Net cash flows from operating activities	39	<u>326,812,354</u>	<u>165,100,808</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(147,448,086)	(199,524,717)
Proceeds from sale of property, plant and equipment	4	16,516,227	31,442,106
Proceeds from sale of investment	3	13,225,782	-
Purchase of other intangible assets	5	-	(3,964,094)
		<u>(117,706,077)</u>	<u>(172,046,701)</u>
Net cash flows from investing activities		<u>(117,706,077)</u>	<u>(172,046,701)</u>
Net increase/(decrease) in cash and cash equivalents		209,106,277	(6,945,893)
Cash and cash equivalents at the beginning of the year		51,584,328	58,530,221
Cash and cash equivalents at the end of the year	10	<u>260,690,605</u>	<u>51,584,328</u>

* See Note 43

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	741,875,000	-	741,875,000	754,582,160	12,707,160	58
Interest on Investments	6,732,000	-	6,732,000	3,976,364	(2,755,636)	
Other own revenue	3,579,000	-	3,579,000	8,132,008	4,553,008	58
Rental of facilities and equipment	1,386,000	-	1,386,000	1,211,724	(174,276)	
Licences and permits	2,127,000	-	2,127,000	5,671,150	3,544,150	
Agency Services	12,000,000	-	12,000,000	11,009,754	(990,246)	
Interest received - outstanding debtors	91,112,000	-	91,112,000	130,798,400	39,686,400	58
Total revenue from exchange transactions	858,811,000	-	858,811,000	915,381,560	56,570,560	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	270,000,000	80,000,000	350,000,000	338,145,245	(11,854,755)	58
Transfer revenue						
Transfers & subsidies	699,244,000	11,624,000	710,868,000	701,928,447	(8,939,553)	58
Fines, Penalties and Forfeits	1,001,000	-	1,001,000	4,091,034	3,090,034	
Total revenue from non-exchange transactions	970,245,000	91,624,000	1,061,869,000	1,044,164,726	(17,704,274)	
Expenditure						
Employee related costs	(470,000,000)	(20,000)	(470,020,000)	(569,816,211)	(99,796,211)	58
Remuneration of councillors	(33,242,000)	-	(33,242,000)	(31,862,041)	1,379,959	
Depreciation	(490,000,000)	-	(490,000,000)	(322,613,883)	167,386,117	
Finance costs	(140,501,000)	-	(140,501,000)	(40,132,189)	100,368,811	
Other materials	(26,319,855)	(1,302,042)	(27,621,897)	-	27,621,897	
Debt Impairment	(275,000,000)	-	(275,000,000)	(434,170,002)	(159,170,002)	58
Lease rentals on operating lease	-	-	-	(88,331,771)	(88,331,771)	
Bulk purchases	(560,000,000)	26,750,000	(533,250,000)	(590,290,736)	(57,040,736)	
Contracted services	(235,075,000)	(11,988,000)	(247,063,000)	(148,807,377)	98,255,623	
Transfers and grants	(4,500,000)	410,000	(4,090,000)	(455,828)	3,634,172	
Other expenditure	(189,101,000)	12,450,117	(176,650,883)	(249,559,535)	(72,908,652)	
Total expenditure	(2,423,738,855)	26,300,075	(2,397,438,780)	(2,476,039,573)	(78,600,793)	
Operating (deficit)/surplus	(594,682,855)	117,924,075	(476,758,780)	(516,493,287)	(39,734,507)	
Transfers and subsidies - capital	281,797,000	19,119,930	300,916,930	159,537,760	(141,379,170)	
Fair value adjustments	-	-	-	(144,922)	(144,922)	
Actuarial gains/losses	-	-	-	50,732,079	50,732,079	
Gain/(loss) on provision for landfill closure	-	-	-	(6,737,241)	(6,737,241)	
	281,797,000	19,119,930	300,916,930	203,387,676	(97,529,254)	
Surplus/(deficit)	(312,885,855)	137,044,005	(175,841,850)	(313,105,611)	(137,263,761)	
Capital Expenditure	281,797,000	19,119,930	300,916,930	147,448,086	(153,468,844)	

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(594,682,855)	117,924,075	(476,758,780)	(460,553,697)	16,205,083	

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the section 126(1) 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.

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

Trade receivables

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

The impairment for receivables is calculated on a portfolio basis.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

Fair value estimation

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

The fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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

Value in use of cash generating assets

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

Value in use of non-cash generating assets

The municipality reviews and tests the carrying value of assets when events or changes in the circumstances suggest that the carrying amount may not be recoverable. If there are indications that an impairment may have occurred, the remaining service potential of the asset is determined. The most approach selected to determine the remaining service potential is dependant on the availability of data and the nature of the impairment. .

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 18 - Provisions.

Useful lives of property, plant and equipment and other assets

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

Post-retirement benefits

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

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

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

Effective interest rate

The municipality used the prime interest rate to discount future cash flows. In the event that different rates were used, clear indication of the rate and the reasons are given.

Allowance for impairment of financial assets

On receivables an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is based on assessment of individual accounts.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.4 Investment property

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

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than held to meet the service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations or administration purposes.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of an investment property. However, if the investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), 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.

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

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. The valuations are carried out annually by the external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of specific asset. Changes in the fair value are recorded as part of the statement of financial performance as part of the surplus and deficit.

Where the classification of the investment property is based on management's judgment, the following criteria must have been applied to distinguish investment property from the owner-occupied property and from property held for sale in the ordinary course of business:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment properties.
- land carried for currently undetermined use.
- a building owned or leased out under one or more operating leases.
- leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but also generate revenue are not seen as investment properties. The rental revenue generated is incidental to the purposes for which the property is held.
- a building that is vacant but to be leased out to one or more operating leases.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net proceeds and the carrying amount of the asset and is recognised in the statement of financial performance.

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.

Property interests held under operating leases are classified and accounted for as investment property.

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from the property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 2).

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.4 Investment property (continued)

Fair value

Investment property is measured using the fair value model. Under the fair value model, investment property is carried at its fair value at the reporting date. The valuations are carried out annually by the external valuers. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of specific asset. Changes in the fair value are recorded as part of the statement of financial performance as part of the surplus and deficit.

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

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

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

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

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost. Subsequent to initial recognition the property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

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

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

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 - 80 years
Plant and machinery	Straight line	5 - 17 years
Furniture and fixtures	Straight line	5 - 17 years
Motor vehicles	Straight line	5 - 15 years
Office equipment	Straight line	3 - 12 years
Computer equipment	Straight line	3 - 12 years
Bins and Containers	Straight line	7 - 15 years
Infrastructure		
Road surface layers	Straight line	7 - 50 years
Road structural layers	Straight line	7 - 50 years
Bridges	Straight line	60 - 80 years
Culverts	Straight line	15 years
Storm water	Straight line	50 - 80 years
Electricity	Straight line	30 - 50 years
Water assets	Straight line	40 - 80 years
Sewer pipes	Straight line	80 years
Community		
Buildings	Straight line	30 - 50 years
Sports fields	Straight line	7 - 15 years

The depreciable amount of an asset is allocated on a systematic basis over its useful life.

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

The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. The depreciation method applied to an asset is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the asset, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

The municipality assesses at each reporting date whether there is any indication that the municipality expectations about the residual value and the useful life of an asset have changed since the preceding reporting date. If any such indication exists, the municipality revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

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

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

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.5 Property, plant and equipment (continued)

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 municipality 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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 3).

1.6 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.7 Heritage assets

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Impairment

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

Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.7 Heritage assets (continued)

Derecognition

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

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.8 Financial instruments

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

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables's from non-exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other financial assets	Financial asset measured at fair value

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

Class	Category
Public Investment Corporation	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Payable from exchange transactions	Financial liability measured at amortised cost
Bank overdraft	Financial liability measured at amortised cost
Payables from non-exchange transaction	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

Initial recognition

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

The municipality recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

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

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

Short term receivables and payables are not discounted where initial credit period granted or received is consistent with the terms in public sector, either

Gains and losses

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

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

Impairment and uncollectibility of financial assets

The municipality assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

For amounts due to the municipality, significant financial difficulties of the receivable, probability that the receivable will enter bankruptcy and default of payments are all considered indicators of impairment.

Financial assets measured at amortised cost:

If there is objective evidence that an impairment loss on financial assets measured at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced directly OR through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed directly OR by adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.8 Financial instruments (continued)

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

Derecognition

Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

The difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

Financial liabilities

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

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

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

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

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

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

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

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

1.9 Leases

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

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

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.9 Leases (continued)

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.

The aggregate benefit of incentives is recognised as a reduction of rental expenses over the lease term on a straight-line basis over the lease term. Any contingent rents are recognised separately as an expense in the period which they are incurred.

1.10 Inventories

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

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

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

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

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

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

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

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

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

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

1.11 Impairment of cash-generating assets

Cash-generating assets are assets used with the objective of generating a commercial return. An asset generates a commercial return when it is deployed in the manner that adopted by a profit-orientated entity.

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

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1.11 Impairment of cash-generating assets (continued)

Value in use

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

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Reversal of impairment loss

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

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

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

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

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

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

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Accounting Policies

1.11 Impairment of cash-generating assets (continued)

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.12 Impairment of non-cash-generating assets

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

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

Redesignation

The redesignation of assets from a cash-generating asset to a non-cash-generating asset or from a non-cash-generating asset to a cash-generating asset only occur when there is clear evidence that such a redesignation is appropriate.

1.13 Employee benefits

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

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Accounting Policies

1.13 Employee benefits (continued)

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.

MADIBENG LOCAL MUNICIPALITY

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Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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.

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 municipality's informal practices. Informal practices give rise to a constructive obligation where the municipality has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the municipality'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 municipality measures the resulting asset at the lower of:

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

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

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

The municipality 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 municipality 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.

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Accounting Policies

1.13 Employee benefits (continued)

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, a municipality shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, a municipality 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 municipality 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 municipality re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

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

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

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.

MADIBENG LOCAL MUNICIPALITY

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Accounting Policies

1.13 Employee benefits (continued)

Other long-term employee benefits

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

The municipality's liability is based on actuarial valuation. The Projected Unit Method is used to value the liabilities.

Actuarial gains and losses on the long-term service awards are recognised in the statement of financial performance.

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

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

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

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

Termination benefits

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

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

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

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

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

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

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

1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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Accounting Policies

1.14 Provisions and contingencies (continued)

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

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

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 42.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.

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

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

1.15 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 includes expenditure committed but not yet incurred. Commitments are catergorised as follows:

- Commitments approved and contracted for,
- Commitments approved but not yet contracted for

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 cancelable 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.

MADIBENG LOCAL MUNICIPALITY

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Accounting Policies

1.16 Revenue from exchange transactions

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

Consumption based revenue from exchanged transactions is determined using the services meter reader. However, meter reading were no longer performed, the average of the previous three months actual reading is used.

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by the proportion that costs incurred to date bear to the total estimated costs of the transaction.

Interest and dividends

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

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

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

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

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Accounting Policies

1.17 Revenue from non-exchange transactions

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.

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.

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

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

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

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

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

Recognition

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

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

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, condition or obligation have not been met a liability is recognised.

Measurement

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

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

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

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Property rates

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

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

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

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

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

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

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

Transfers

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

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

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Fines

Revenue from the issuing of fines is recognised when the definition of an asset is met or when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably,
- measurement and best estimates used
- when fines are collected in the capacity of an agent.

The municipality has two types of fines: spot fines and summonses. Revenue from traffic fines is recognised at a full amount on the issue of fines. Fines that are to the settlement discount are measured using the Municipality's consideration on past history in assessing the likelihood of these discounts being taken up by debtors. Revenue is then measured at fair value of the consideration received or receivable, net of estimated settlement discounts.

Concessionary loans received

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

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

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

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, the fair value of the assets can be measured reliably and to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, the revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

Services in-kind

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

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

1.18 Government grants

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of available evidence. Certain grants payable by one level of government to another are subject to availability of funds. Revenue from these grants is recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of the financial year that grants may be available for qualifying entities in accordance with the agreed programme may not be sufficient evidence of the probability of the flow.

Restrictions on government grants may result in such revenue being recognised on a time proportionate basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remits the grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

1.19 Other grants and donations

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grants

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.20 Borrowing costs

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

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

1.21 Accounting by principals and agents

Identification

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

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.21 Accounting by principals and agents (continued)

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Assessing which entity benefits from the transactions with third parties

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

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

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

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

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with the requirements of the relevant Standards of GRAP.

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

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

1.22 Grants in aid

The municipality transfers funds to individuals, organisations and other sections of the government from time to time. When making these transfers, the municipality does not:

- receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected in an investment.

These transfers are recognised in the statement of financial performance as expenses in the period that the events giving rise to the transfer occurred.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.23 Comparative figures

Reclassification of certain accounts were made in order to comply with the requirements of Municipal Standards Chart of Accounts (MSCOA). The reclassification have not impact of the net asset value of the municipality.

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year note 40.

1.24 Unauthorised expenditure

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

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

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

1.25 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.

1.26 Irregular expenditure

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

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.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.26 Irregular expenditure (continued)

1.27 Use of estimate

The preparation of annual financial statements in conformity with the standards of GRAP requires use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the municipality's policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

1.28 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. Disclosure are required in respect of unrecognised contractual commitments. Commitments for which disclosures 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-cancelable or only cancelable 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 municipality - therefore, salary commitments relating to employment contracts or social security benefit commitments are excluded.

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

Commitments are not recognised in the statements of financial position as a liability, but are included in the disclosure notes in the following cases:

- approved and contracted commitments;
- where the expenditure has been approved and the contract has been awarded at the reporting date; and
- where disclosure is required by a specific standard of GRAP

Refer to note 37.

1.29 Internal reserves

Capital replacement reserve (CRR)

In order to finance the provision of infrastructure and other items of property, plant and equipment from internal sources, amounts are transferred from the accumulated surplus/(deficit) to the CRR. A corresponding amount is transferred to a designated CRR bank or investment account. The cash in the designated CRR bank account can only be utilised to finance items of property, plant and equipment. The CRR is reduced and the accumulated surplus/(deficit) is credited by a corresponding amount when the amounts in the CRR are utilised.

1.30 Revaluation reserve

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

1.31 Housing subsidies

The municipality provides post-retirement housing subsidies for qualifying staff members. The payment of these subsidies is reflected as expenditure in the municipality.

1.32 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to it's recoverable amount and an impairment loss is charged to the statement of financial performance

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.30 Revaluation reserve (continued)

1.33 Investments

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, obligations or obligations have been met a liability is recognised.

1.34 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

Reportable segments are the actual segments which are reported on in the segment report. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

1.35 Research and development expenditure

Expenditure on research is recognised as an expense when it is incurred.

An asset arising from development is recognised when:

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

1.36 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2019 to 6/30/2020.

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

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.36 Budget information (continued)

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.

1.37 Related parties

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

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

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

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

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

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

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

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

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

1.38 Events after reporting date

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

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

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

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

Events after the reporting date that are classified as adjusting events have been accounted for in the financial statements.

Events after the reporting date that are classified as non-adjusting events have been disclosed in the notes to the financial statements

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Accounting Policies

1.39 Value-added tax

The municipality is registered with the South African Revenue Services (SARS) for VAT on the payment basis, in accordance with Section 15(2) of the VAT Act No. 89 of 1991. Revenue, expenses and assets are recognised net of the amounts of value added tax. Value-added tax is accounted for using the payment basis.

The net amount of value added tax recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand

2020

2019

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after July 1, 2020 or later periods:

Standard/ Interpretation:	Effective date:	Expected impact:
GRAP 34: Separate Financial Statements	1 April 2020	No impact
GRAP 35: Consolidated Financial Statements	1 April 2020	No impact
GRAP 36: Investment in associates and joint ventures	1 April 2020	No impact
GRAP 37: Joint Arrangements	1 April 2020	No impact
GRAP 38: Disclosure of interests in other entities	1 April 2020	No impact
GRAP 110: Living and Non-living Resources	1 April 2020	No impact

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand

3. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	97,285,000	-	97,285,000	100,450,000	-	100,450,000

Reconciliation of investment property - 2020

	Opening balance	Disposals	Total
Investment property	100,450,000	(3,165,000)	97,285,000

Reconciliation of investment property - 2019

	Opening balance	Additions	Transfers	Fair value adjustments	Total
Investment property	168,005,000	400,000	(76,755,000)	8,800,000	100,450,000

Valuator

The investment property was valuated by Stefan Rudman who holds a National Diploma Real Estate (Property Valuations) and he is register with the Institute of Valuers of South Africa (registration number :3693/05).

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

The type of property will determine the method of valuation.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

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

1. Comparable Sales method

The Comparable Sales Method estimates the value of a property by examining the other properties that have been sold within a recent timeframe

2. Discounted cash flow method of valuation (DCF)

In finance, discounted cash flow (DCF) analysis is a method of valuing an asset (property) using the concepts of the time value of money. All future cash flows are estimated and discounted by using the cost of capital to give their present values (PVs). The sum of all future cash flows, both incoming and outgoing, is the net present value (NPV), which is taken as the value of the cash flows in question.

Using the DCF analysis to compute the NPV takes input cash flows and a discount rate to give us as output a present value. The opposite process - takes cash flows and a price (present value) as inputs, and provides as output the discount rate _ this is used in bond markets to obtain the yield.

Discounted cash flow analysis are widely used in investment finance, real estate development, corporate financial management and patent valuation. It was used in industry as early as the 1700s or 1800s, widely discussed in financial economics in the 1960s, and became widely used in the U.S. Courts in 1980s and 1990s.

Income and Expenditure

Aggregate of items valued using deemed cost	1,211,725	1,099,009
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MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

4. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	946,975,658	-	946,975,658	946,975,658	-	946,975,658
Buildings	150,805,873	(41,939,688)	108,866,185	150,933,373	(37,111,438)	113,821,935
Infrastructure	7,675,727,761	(4,357,423,168)	3,318,304,593	7,582,888,294	(4,080,882,105)	3,502,006,189
Community	198,575,415	(45,900,875)	152,674,540	200,632,831	(39,850,313)	160,782,518
Work in progress	701,488,484	-	701,488,484	666,535,897	-	666,535,897
Other property, plant and equipment	98,481,349	(49,362,992)	49,118,357	109,762,355	(47,785,388)	61,976,967
Total	9,772,054,540	(4,494,626,723)	5,277,427,817	9,657,728,408	(4,205,629,244)	5,452,099,164

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers	Depreciation	Total
Land	946,975,658	-	-	-	-	946,975,658
Buildings	113,821,935	-	(84,966)	-	(4,870,784)	108,866,185
Infrastructure	3,502,006,189	2,034,841	(2,874,604)	109,067,722	(291,929,555)	3,318,304,593
Community	160,782,518	-	(1,505,953)	-	(6,602,025)	152,674,540
Work in progress	666,535,897	144,020,309	-	(109,067,722)	-	701,488,484
Other property, plant and equipment	61,976,967	1,392,936	(2,210,090)	-	(12,041,456)	49,118,357
	5,452,099,164	147,448,086	(6,675,613)	-	(315,443,820)	5,277,427,817

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers received	Transfers	Depreciation	Impairment loss	Total
Land	870,450,658	-	-	76,525,000	-	-	-	946,975,658
Buildings	118,990,147	-	(3,109)	230,000	-	(4,869,979)	(525,124)	113,821,935
Infrastructure	3,712,605,008	6,200,000	-	-	90,667,924	(307,466,736)	-	3,502,006,189
Community	167,366,505	-	-	-	-	(6,583,987)	-	160,782,518
Work in progress	587,018,100	170,185,721	-	-	(90,667,924)	-	-	666,535,897
Other property, plant and equipment	68,534,172	23,138,996	(15,717,944)	-	-	(13,978,257)	-	61,976,967
	5,524,964,590	199,524,717	(15,721,053)	76,755,000	-	(332,898,959)	(525,124)	5,452,099,164

Pledged as security

None of the property, plant and equipment have been pledged as security.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

4. Property, plant and equipment (continued)

Work in progress halted projects

The below list represents work in progress projects that are taking longer than expected to complete:

Hebron/ Kgabalatsane/ Rockville Water	R46 275 700	Projects are multi phased and pending due to the supply of bulk water to ensure pipe testing can be done and works certified by Engineer after lines are pressurized.
Oukasie Substation Oukasie 88/11kv Substation	R19 677 566	Project delayed due to initial under funding resulting in the budget being exhausted. Additional funds (INEP) have been secured to complete the project in 2020/21 financial period.
Upgrading Of The Main Bus And Taxi Rank	R18 572 631	Project almost practically completed and delays due to litigation between client and contractor.
Klipgat Extention Water Supply	R72 533 462	Projects are multi phased and pending due to the supply of bulk water to ensure pipe testing can be done and works certified by Engineer after lines are pressurized.
Madidi Multi-Purpose Centre and borehole	R11 857 073	Project delayed due to termination of initial contract. A new contractor has been recently appointed to complete the works.

Repairs and maintenance

Repairs and maintenance	<u>105,640,324</u> <u>118,877,777</u>
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Assets write-off

During physical verification moveable assets amounting to a Net Book Value of R2.2 million could not be found on the floor and have been De-recognised from the Fixed Asset Register. Management is investigating this issue to ensure accountability by the assets custodians and to recover any financial loss. Report on the investigation will be submitted to Council with the list of assets not verified.

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

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

5. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, internally generated	4,888,156	(2,557,911)	2,330,245	4,888,156	(924,062)	3,964,094

Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software, internally generated	3,964,094	(1,633,849)	2,330,245

Reconciliation of intangible assets - 2019

	Opening balance	Amortisation	Total
Computer software, internally generated	4,888,156	(924,062)	3,964,094

Pledged as security

None of the intangible assets have been pledged as security:

MADIBENG LOCAL MUNICIPALITY

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6. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	10,100	-	10,100	10,100	-	10,100

Reconciliation of heritage assets 2020

Art Collections, antiquities and exhibits	Opening balance	Total
	10,100	10,100

Reconciliation of heritage assets 2019

Art Collections, antiquities and exhibits	Opening balance	Total
	10,100	10,100

Pledged as security

None of the heritage assets pledged as security.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

7. Inventories

Consumables stores	18,785,351	11,576,977
Water for distribution	4,845,511	4,845,511
Unsold Properties	10,318	10,318
	23,641,180	16,432,806

Reconciliation of Consumables Stores

Opening Balance	11,576,977	9,016,861
Purchases	28,044,890	15,102,451
Issues	(19,612,544)	(13,079,849)
Inventory written off	(2,760,147)	(120,212)
Stock adjustment	-	657,726
	17,249,176	11,576,977

Reconciliation of Water for distribution

Opening balance	4,845,511	487,354
Purchases	-	4,358,157
	4,845,511	4,845,511

Reconciliation of Unsold Properties

Opening balance	10,318	10,318
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Inventory pledged as security

None of the inventory have been pledged as security.

8. Receivables from exchange transactions

Gross balances

Electricity	382,685,686	313,302,103
Water	788,302,110	624,324,490
Sewerage	248,821,567	194,573,314
Refuse	228,976,950	179,234,068
Other	99,254,048	89,484,954
	1,748,040,361	1,400,918,929

Less: Allowance for impairment

Electricity	(287,639,716)	(221,109,852)
Water	(714,979,960)	(556,975,416)
Sewerage	(229,912,357)	(175,295,713)
Refuse	(212,570,626)	(164,552,016)
Other	(90,752,033)	(82,821,719)
	(1,535,854,692)	(1,200,754,716)

Net balance

Electricity	95,045,970	92,192,251
Water	73,322,150	67,349,074
Sewerage	18,909,210	19,277,601
Refuse	16,406,324	14,682,052
Other	8,502,015	6,663,235
	212,185,669	200,164,213

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

8. Receivables from exchange transactions (continued)

Electricity

Current (0 -30 days)	22,321,615	22,701,041
31 - 60 days	3,519,206	4,329,666
61 - 90 days	7,348,240	3,636,152
91 - 120 days	4,845,923	3,446,882
121 - 365 days	32,468,444	23,653,512
> 365 days	24,542,542	34,424,998
	95,045,970	92,192,251

Water

Current (0 -30 days)	5,200,243	4,371,356
31-60 days	1,436,080	2,002,284
61 - 90 days	1,538,506	1,692,725
91 - 120 days	1,521,800	1,586,308
121 - 365 days	17,401,779	11,733,773
> 365 days	46,223,742	45,962,628
	73,322,150	67,349,074

Sewerage

Current (0 -30 days)	1,050,521	1,190,740
31 - 60 days	367,712	522,053
61 - 90 days	414,555	462,577
91 - 120 days	393,068	421,830
121 - 365 days	4,946,165	3,225,412
>360 days	11,737,189	13,454,989
	18,909,210	19,277,601

Refuse

Current (0 -30 days)	602,597	1,161,060
31 - 60 days	264,286	336,464
61-90 days	259,015	332,707
91 - 120 days	247,772	325,594
121 - 365 days	4,050,052	2,304,946
> 365 days	10,982,602	10,221,281
	16,406,324	14,682,052

Other

Current (0 -30 days)	105,835	833,139
31 - 60 days	17,246	220,126
61 - 90 days	45,200	169,281
91 - 120 days	85,154	182,555
121 - 365 days	1,789,920	2,392,919
> 365 days	3,853,722	4,512,277
	5,897,077	8,310,297

Reconciliation of allowance for impairment

Balance at beginning of the year	(1,200,754,717)	(679,645,924)
Contributions to allowance	(335,099,975)	(219,344,781)
Debt impairment written off against allowance	-	(301,764,011)
	(1,535,854,692)	(1,200,754,716)

Statutory receivables general information

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

8. Receivables from exchange transactions (continued)

Consumer debtors pledged as security

None of the consumer debtors have been pledged as security.

9. Receivables from non-exchange transactions

Fines	17,046,646	13,818,299
Rates	861,197,415	716,891,827
Sundry debtors	3,756,304	147,591
Allowance for impairment	(799,991,614)	(716,160,017)
Duplicate payment to suppliers	1,647,063	1,647,063
Impairment of duplicate payment to suppliers	(1,647,063)	-
	82,008,751	16,344,763

Property rates were impaired in accordance with GRAP 108, Statutory Receivables. An allowance of impairment is the excess of receivables carrying amount over discounted cashflows from the statutory receivables.

The expected cashflows were discounted at a risk-free-rate set as the yield of the South African bond at reporting date. The discount rate was adjusted with a risk premium derived from risk allocated to individual or a category of receivables. Key indicators and assumptions used to assess and calculate whether statutory receivables were impaired during the reporting period included: receivables that are more than 90 days outstanding, economic downturn due to covid-19 corona virus, indigent status of a receivable, the last date a customer made a payment to the municipality and receivables payment arrangements.

Reconciliation of provision for impairment of receivables from non-exchange transactions

Opening balance	716,160,017	666,527,102
Allowance for impairment	133,756,650	49,632,915
	849,916,667	716,160,017

10. Cash and cash equivalency

Cash and cash equivalency consist of:

Bank balances	67,429,756	11,224,491
Short-term deposits	193,260,849	40,359,837
	260,690,605	51,584,328

During the 2018/2019 financial year end VBS Mutual Bank experienced financial difficulties which led to breach of contracts when some of the matured investments and deposits could not be honoured. The Reserve Bank then placed the bank under curatorship. The municipality had a short term deposit of R31 504 247.62. The municipality accounts for short term deposits as financial assets at amortised cost. The curator and National Treasury did not offer any guarantees to the municipality. The municipality resolved in the 2018/2019 financial year to fully impair the investment of R31 504 247.62 since there are no future cashflow expected from VBS Mutual Bank Investment. As at the end of the 30 June 2020 financial year end the municipality is still awaiting the outcome of the curator and National Treasury.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

10. Cash and cash equivalency (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances		Cash book balances	
	June 30, 2020	June 30, 2019	June 30, 2020	June 30, 2019
ABSA BANK - 640000376	5,116,239	1,407,112	15,674,279	11,957,256
FNB Licensing - 62547263103	3,196,079	128,823	2,487,897	129,122
FNB primary account - 62547261602	11,053,133	3,163,772	22,700,573	715,233
FNB Call account 62576598323	179,415,584	14,429,210	179,415,584	14,429,210
FNB FMG call account - 62550510153	2,152,969	1,143	2,152,969	1,143
FNB INEP Call account - 625593130003	351,000	84,134	351,000	84,134
FNB EPWP Call account - 62564478016	7,486,644	18,734,776	7,486,644	18,734,776
FNB Call Account EQS- 62564475210	2,233,953	5,569,857	2,233,953	5,569,857
FNB Call Account MIG Retention - 37881098570	396,414	375,762	396,414	375,762
Nedbank - 37881098570(closed)	-	81,209	-	81,209
ABSA Growing business (closed)	-	3,576	-	3,576
ABSA Growing business(closed)	-	3,346	-	3,346
FNB Traffic 62547269672	-	1	55,000	-
FNB Consumer-62547274423	-	1	17,071,478	-
Investec 14000189013500	1,146,214	1,083,744	1,146,214	1,083,744
Total	212,548,229	45,066,466	251,172,005	53,168,368

11. Other financial assets

Designated at fair value

Listed shares-Sanlam Limited,Old Mutual limited; Quilter PLC; Nedbank Group Limited	743,416	1,196,657
Unit trusts- Fairbairn Capital	4,863,021	10,346,829
Other investments- Old Mutual limited	1,682,296	1,682,295
	7,288,733	13,225,781

None of the other financial assets of the municipality have been pledged as security.

Reconciliation of listed shares

Opening balance	1,196,657	1,518,601
Fair value gains (losses) for the year	(100,433)	(321,944)
	1,096,224	1,196,657

Reconciliation of Unit Trusts

Opening Balance	1,196,657	9,826,827
Acquired during the year	6,055,251	-
Disposed during the year	-	(9,150,173)
Interest earned for the year	130,643	520,003
	7,382,551	1,196,657

Reconciliation of other Investments

Opening balance	1,682,296	5,723,542
Interest earned	-	256,371
Bank charges	-	(7,517)
Amount withdrawn	-	(4,290,100)
	1,682,296	1,682,296

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

11. Other financial assets (continued)

Non-current assets

Fair value	-	1
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Current assets

Fair value	7,288,733	13,225,781
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12. Payables from exchange transactions

Trade payables	1,025,499,234	667,104,589
Payments received in advance	189,856,937	190,754,881
Retentions	52,263,387	53,298,092
Unallocated deposits	114,756,957	143,298,117
Bonus Accrual	12,124,772	11,174,670
Leave Accrual	44,559,234	35,947,921
Salaries third party payments	7,419,043	5,734,658
	1,446,479,564	1,107,312,928

13. VAT payable

VAT payable to SARS (accrued)	529,702	2,009,398
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14. Consumer deposits

Consumer deposits	40,046,822	40,802,525
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Reconciliation of consumer deposits

Opening Balance	40,807,312	15,946,827
Movement for the period	2,221,776	24,860,485
	43,029,088	40,807,312

Classes of consumer debtors

Electricity	43,027,482	40,807,312
Housing	1,606	-
	43,029,088	40,807,312

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Department of Water Affairs	-	16,262,682
Library Grant	395,601	456,774
Expanded Public Works Programme	-	183,592
Municipal Infrastructure Grant	140,825,642	-
Water Services Infrastructure grant	553,539	-
	141,774,782	16,903,048

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

15. Unspent conditional grants and receipts (continued)

Movement during the year

Balance at the beginning of the year	16,903,048	987,137
Additions during the year	138,496,972	241,520,682
Income recognition during the year	(13,625,238)	(225,604,771)
	<u>141,774,782</u>	<u>16,903,048</u>

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

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

See note 26 for reconciliation of grants from National/Provincial Government.

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

16. Operating lease liability (accrual)

Current liabilities	<u>(19,242,017)</u>	<u>(27,699,640)</u>
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It is the policy of the municipality to lease certain fleet management services from Bertobrite under a three year contract.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

17. Employee benefit obligations

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

Carrying value

Post medical aid retirement benefit plan	(159,745,772)	(155,978,248)
Long term service award	(23,993,239)	(22,005,907)
	<u>(183,739,011)</u>	<u>(177,984,155)</u>

Post retirement medical aid plan

The municipality offers employees and continuation members an opportunity of belonging to any of the several medical aid schemes, most of which offer a range of options pertaining to cover.

Upon retirement, an employee continues membership of the medical scheme. Upon a member's death in service or death in retirement, the surviving dependants may continue membership of the scheme.

Changes in the present value of the defined benefit obligation are as follows:

Opening balance	155,978,248	161,164,000
Benefits paid	(4,134,681)	(3,801,512)
Net expense recognised in the statement of financial performance	7,902,215	(1,384,240)
	<u>159,745,782</u>	<u>155,978,248</u>

Net expense recognised in the statement of financial performance

Current service cost	11,245,352	13,995,147
Interest cost	16,122,587	17,226,637
Actuarial (gains) losses	(19,465,724)	(32,606,024)
	<u>7,902,215</u>	<u>(1,384,240)</u>

Key assumptions used

GRAP 25 requires that financial assumptions be based on market based assumptions at the valuation date for the period over which the liability obligations are to be settled.

Assumptions used at the reporting date are as follows:

Discount rates used	7.66 %	8.10 %
Expected rate of return on assets	4.50 %	4.38 %
Expected rate of return on reimbursement rights	4.00 %	5.38 %

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

17. Employee benefit obligations (continued)

Long services Award

Changes in the present value of the long service award obligations are as follows:

Opening balance	22,005,906	20,905,000
Benefits paid	(1,345,532)	(3,059,186)
Net expense recognised in the statement of financial performance	3,331,219	4,160,092
	23,991,593	22,005,906

Net expense recognised in the statement of financial performance

Current service cost	2,045,418	1,700,513
Interest cost	1,782,478	1,815,801
Actuarial (gains) losses	(496,677)	643,778
	3,331,219	4,160,092

Key assumptions used

In estimating the unfunded liability for Long service award of the municipality a number of actuarial assumptions are required. GRAP 25 places responsibility on management to set these assumptions as guided by the principles set out in the statement and in discussion with the Actuary.

It should be noted that the valuation method and assumptions used do not ultimately cost the long service award, this is determined by the actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future service costs are recognised over time.

Assumptions used at the reporting date are as follows .

Discount rate used	6 %	8 %
Expected rate of return on assets	5 %	4 %
Expected rate of return on reimbursement rights	2 %	5 %

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

18. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Change in discount factor	Total
Provision for the restoration of landfill site	16,789,837	6,737,241	23,527,078

Reconciliation of provisions - 2019

	Opening Balance	Interest Charge	Change in provision for landfill closure	Total
Provision for the restoration of landfill site	29,485,969	987,780	(13,683,912)	16,789,837

The provision for the final rehabilitation and closure costs for the Hartbeesfontein landfill was calculated by ESS, based on the General Landfill Closure Costing Model (GLCCM). The Hartbeesfontein landfill is situated on Portion 37 (a portion of portion 33) of the farm Hartbeesfontein 445 JQ, District Brits, approximately 8.8 km South-East of Madibeng Local Municipality.

Key assumptions used

Unit costs

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Details of this are provided separately.

Consumer Price Index (CPI)

The CPI is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date 16. The average of the CPI for the last three months amounted to 2.4107%.

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. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, 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.

The rate most consistent with the remaining life of the landfill published at the end of the quarter that includes the financial year-end date was used. For this landfill the rate associated with the maximum period of 10 years was used, i.e. 5% above CPI.

19. Service charges

Sale of electricity	477,760,588	470,414,802
Sale of water	169,638,967	167,742,496
Sewerage and sanitation charges	53,042,489	50,178,816
Refuse removal	54,140,116	46,816,269
	754,582,160	735,152,383

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

20. Commission received

Commission received

Commission received for the year	11,009,754	13,215,741
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21. Interest received

Interest

Interest from call account	3,836,493	5,843,411
Interest from current account	139,871	-

3,976,364	5,843,411
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Interest revenue

Interest charged on trade and other receivables	130,798,400	85,965,215
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134,774,764	91,808,626
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22. Other operational revenue

Cemetery fees	765,444	1,135,356
Town planning	1,257,901	227,471
Reconnection fees	1,170,246	2,356,029
Service connections	27,285	38,496
Servitude income	-	95
Other income	4,401	326,774
Tender document fees	1,582,498	803,500
Valuation fees	706,024	13,338
Refuse removal departmental sales	1,248,247	2,585,703
Bulk services	19,545	56,509
Clearance certificates	142,134	129,756
Building plans	-	1,120,145
Advertising hoarding	129,840	67,004
Notice fees	1,078,443	2,097,719
Insurance commission	-	188,687

8,132,008	11,146,582
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23. Fair value adjustments

Investment property (Fair value model)	-	8,800,000
Other financial assets		
• Other financial assets (Fair value)	(144,922)	(1,624,789)

(144,922)	7,175,211
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24. Rental of facilities and equipment

Facilities and equipment

Rental of facilities	1,211,724	1,091,034
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MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

25. Property rates

Rates received

Residential	190,307,288	164,265,291
Commercial	54,459,017	(11,083,494)
State	24,647,341	48,919,090
Small holdings and farms	68,731,599	37,963,129
	338,145,245	240,064,016

Valuations

Residential	1,892,392,224	1,892,392,224
Commercial	5,940,462,923	5,940,462,923
State	2,132,942,300	2,132,942,300
Municipal	1,492,156,150	1,492,156,150
Small holdings and farms	8,862,922,166	8,862,922,166
	10,320,875,763	10,320,875,763

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

All categories of properties as stated in the general and supplementary valuation roll have a unique tariff linked to in ratio of 1:1 in relation to residential properties and regulated properties rated are applied in terms of Municipal Property Rates Regulations as published in the Government Notice Number R.363 of 27 March 2009 which 1: 0,25. State owned properties are exempted from rebates by virtue of ownership. Indigents consumers receives 100% rebate while pensioners receive a maximum of 50% rebate of rates rebate .

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

26. Government grants and subsidies

Operating grants

Equitable share	695,605,274	624,943,000
Finance management grant	2,235,000	1,770,000
	697,840,274	626,713,000

Capital grants

Expanded Public Works Programme (EPWP)	1,403,000	990,408
Municipal Infrastructure grants	140,971,359	225,258,000
Water services infrastructure grant	18,566,401	5,537,318
Library Grant	1,046,173	1,446,363
Disaster Relief Grant	1,639,000	-
	163,625,933	233,232,089
	861,466,207	859,945,089

Equitable Share

In terms of the Division of Revenue Act (DoRA), the annual equitable share allocated to the municipality is an unconditional grant. A portion of this grant is used to subsidise the provision of basic services to the indigent community members in line with national policy.

Department of Water and Sanitation

Balance unspent at beginning of year	16,262,682	-
Current-year receipts	19,119,940	21,800,000
Conditions met - transferred to revenue	(18,566,401)	(5,537,318)
Equitable share(held back)	(16,262,682)	-
	553,539	16,262,682

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

The grant is meant to subsidise and build capacity in water schemes owned and or operated by the Department of Water Affairs or by other agencies on behalf of the Department and transfer these schemes to local government.

Finance Management Grant

Current-year receipts	2,235,000	1,770,000
Conditions met - transferred to revenue	(2,235,000)	(1,770,000)
	-	-

This grant is intended to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act. The conditions of the grants were met. No funds have been withheld.

Expanded Public Works Programme

Balance unspent at beginning of year	183,592	-
Current-year receipts	1,586,592	1,174,000
Conditions met - transferred to revenue	(1,586,592)	(990,408)
Equitable share (held back)	(183,592)	-
	-	183,592

This grant is intended to incentives municipalities to expand work efforts work creation

Library Grant

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

26. Government grants and subsidies (continued)

Balance unspent at beginning of year	456,774	987,137
Current-year receipts	1,441,774	916,000
Conditions met - transferred to revenue	(1,502,947)	(1,446,363)
	395,601	456,774

The grant is intended to assist in the operations of library for the municipality..

Municipal Infrastructure Grant

Current-year receipts	281,797,000	225,258,000
Conditions met - transferred to revenue	(140,971,358)	(225,258,000)
	140,825,642	-

The grant is intended to assist in to the municipality with infrastructure spend in order to promote service delivery..

Disaster Relief Grant

Current-year receipts	1,639,000	-
Conditions met - transferred to revenue	(1,639,000)	-
	-	-

The grant is meant to assist with the purchase of covid 19 personal protective equipment expenditure.

27. Prepayments

Prepayments

Opening balance	7,268,710	3,741,558
Movement for the year	-	3,527,152
Impairment of prepayments	(7,268,710)	-
	-	7,268,710

Reconciliation of provision for impairments of prepayments

Movement expensed during the year.	7,268,710	-
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MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

28. Finance lease obligation

Minimum lease payments due

- within one year	5,382,000	5,382,000
- in second to fifth year inclusive	-	3,139,500
	5,382,000	8,521,500
less: future finance charges	(275,824)	(608,784)
Present value of minimum lease payments	5,106,176	7,912,716

Present value of minimum lease payments due

- within one year	5,106,176	5,106,176
- in second to fifth year inclusive	-	2,806,540
	5,106,176	7,912,716

Non-current liabilities	-	2,806,540
Current liabilities	5,106,176	5,106,176
	5,106,176	7,912,716

It is municipality policy to lease certain Fuel Depot tanks under finance leases.

The fuel depot tanks were leased with Balimi Barui over the lease term was 3 years, the lease term commencement date is 1 September 2017, with monthly repayments of R390 000.00 and an incremental borrowing rate 9% (2019: 9%).

29. Revenue

Service charges	754,582,160	735,152,383
Rental of facilities and equipment	1,211,724	1,091,034
Licences and permits	5,671,150	6,644,262
Commissions received	11,009,754	13,215,741
Other income	8,132,008	11,146,582
Interest received	130,798,400	85,965,215
Dividends received	3,976,364	5,843,411
Property rates	338,145,245	240,064,016
Government grants & subsidies	861,466,207	859,945,089
Fines, Penalties and Forfeits	4,091,034	155,322
	2,119,084,046	1,959,223,055

Reconciliation of the revenue

Revenue as per the revenue in the statement of financial performance	2,174,705,822	1,980,593,868
Revenue as per the revenue note above	(2,121,320,432)	(1,959,097,736)
Fair value adjustments	(2,653,301)	(8,800,000)
Gain of landfill site provision	-	(12,696,132)
Actuarial gain	(50,732,089)	-
	-	-

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

Service charges	754,582,160	735,152,383
Rental of facilities and equipment	1,211,724	1,091,034
Licences and permits	5,671,150	6,644,262
Commissions received	11,009,754	13,215,741
Other income	8,132,008	11,146,582
Interest received - investment	130,798,400	85,965,215
Dividends received	3,976,364	5,843,411
	915,381,560	859,058,628

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

29. Revenue (continued)

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

Taxation revenue		
Property rates	338,145,245	240,064,016
Transfer revenue		
Government grants and subsidies	861,466,207	859,945,089
Fines, Penalties and Forfeits	4,091,034	155,322
	1,203,702,486	1,100,164,427

30. Bulk purchases

Electricity	495,330,558	582,160,545
Water	94,960,178	201,737,002
	590,290,736	783,897,547

Distribution losses in units

Electricity losses	276,412,682	130,248,762
Water losses	23,473,795	19,750,434
	299,886,477	149,999,196

Reconciliation of water losses

	Losses in KL	Losses In Percentage
2019/2020 Financial year amounts	23,473,795	72
2018/2019 Financial year amounts	19,750,434	65
	43,224,229	137

Reconciliation of electricity distribution losses

	Losses in KWH	Losses in Percentage
2019/2020 Financial year amounts	276,412,682	64
2018/2019 Financial year amounts	130,248,761	30
	406,661,443	94

31. Contracted services

Outsourced Services

Information Technology Services	45,368,028	26,892,434
Fleet Services	3,982,561	3,797,013
Operating Leases	3,912,018	3,371,859
Specialist Services	58,962,002	62,992,033
Business and Advisory	17,763,625	27,899,315
Legal cost collection	15,341,148	5,102,729
Valuation Services	3,477,995	11,414,795

Total

148,807,377 **141,470,178**

32. Debt impairment

Debt impairment	434,170,002	118,701,905
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MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

33. Depreciation and amortisation

Property, plant and equipment	320,980,034	332,843,264
Intangible assets	1,633,849	924,062
	322,613,883	333,767,326

34. Employee related costs

Basic	322,098,629	277,160,830
13th cheques	26,412,709	22,593,123
Medical Aid	43,712,011	46,718,906
UIF	2,426,611	2,097,335
Leave pay provision charge	21,943,116	20,825,470
Provident and pension fund	66,941,604	59,472,267
Travel allowances	29,596,157	25,921,959
Overtime payments	43,458,952	38,594,086
Acting allowances	1,759,228	1,878,738
Telephone/cellphone allowance	328,674	342,615
Housing benefits and allowances	2,675,113	2,325,307
Industrial council	4,454,996	121,308
Stand by allowances	4,008,411	2,927,485
	569,816,211	500,979,429

35. Related parties

Executive mayor	938,250	900,275
Chief Whip	714,787	689,003
Mayoral committee members	7,842,991	7,557,864
Speaker	759,479	731,976
Other Councillors	21,606,534	21,164,242
	31,862,041	31,043,360

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

35. Related parties (continued)

Remuneration of Municipal Manager

Annual remuneration	895,610	487,356
Acting allowance ,Travelling allowance ,Subsistence and other allowances	391,612	370,891
leave pay	-	109,135
Contribution to UIF ,SDL, Medical and Pension Fund	1,338	164,378
	1,288,560	1,131,760

Mr. N Maape was appointed as Acting Municipal Manager from October 2019 to June 2020.

Ms MG Magole was appointed as Acting Municipal Manager from 1 July 2019 to 30 September 2019.

Remuneration of Chief Financial Officer

Annual remuneration	477,564	390,000
Acting allowance ,Travelling allowance ,Subsistence and other allowances	222,664	327,424
Leave pay	-	84,351
Contribution to UIF ,SDL, Medical and Pension Fund	892	42,569
	701,120	844,344

Acting allowance and duration

Mr MJ Motaung was appointed as acting Chief Financial Officer 01 July 2019 - 30 Sept 2019

Mr L. Mere was appointed as acting Chief Financial Officer from 1 July 2019 to 31 March 2020

Ms. BE Sathekge is appointed as acting CFO as at 1 April 2020 30 June 2020

Remuneration of Director Corporate Support services

Annual remuneration	868,246	846,518
Acting allowance ,Travelling allowance ,Subsistence and other allowances	358,594	324,502
Bonuses	72,518	70,543
Contribution to UIF ,SDL, Medical and Pension Fund	236,908	130,527
Leave pay	27,089	-
	1,563,355	1,372,090

Ms. MG Magole is appointed as Director of Corporate Support Services

Remuneration of Director Public Safety

Annual remuneration	641,472	624,000
Acting allowance ,Travelling allowance ,Subsistence and other allowances	552,087	518,632
Bonuses	53,335	50,000
Contribution to UIF ,SDL, Medical and Pension Fund	201,986	182,908
Leave pay	19,968	127,646
	1,468,848	1,503,186

Ms. P. Dilinga is appointed as Director of Public Safety

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

35. Related parties (continued)

Remuneration of Director Infrastructure and Technical Services

Annual remuneration	702,846	360,000
Acting allowance ,Travelling allowance ,Subsistence and other allowances	323,379	399,097
Bonuses	-	44,160
Contribution to UIF ,SDL, Medical and Pension Fund	-	40,395
Leave pay	1,338	88,860
	1,027,563	932,512

Mr. MC Church is appointed as Director of Infrastructure and Technical Services from 1 October 2019 to 30 June 2020.

Mr. VA Baloyi was appointed as Acting Director of Infrastructure and Technical Service, 1 July 2019 to 30 Sept 2019.

Remuneration of Director Local Economic Development

Annual remuneration	1,174,509	1,145,118
Acting allowance ,Travelling allowance ,Subsistence and other allowances	240,169	226,938
Contribution to UIF ,SDL, Medical and Pension Fund	15,587	162,556
	1,430,265	1,534,612

Ms. STN Mnisi is appointed as Director of Local Economic Development.

Remuneration of Director Human Settlement

Acting allowance ,Travelling allowance ,Subsistence and other allowances	346,583	379,443
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Mr. DN Pule is appointed as Acting Director of Human Settlement 1 July 2019 to 30 June 2020.

Remuneration of Chief Audit Executive

Annual Remuneration	718,444	686,994
Acting allowance ,Travelling allowance ,Subsistence and other allowances	508,627	499,795
Leave pay	22,415	-
Contributions to UIF, Medical and Pension Funds	211,106	180,791
	1,460,592	1,367,580

Mr. MA Mmaphetho is appointed as Chief Audit Executive

Remuneration of Director Community development

Annual Remuneration	705,619	673,200
Acting allowance ,Travelling allowance ,Subsistence and other allowances	444,661	437,239
Leave pay	21,965	117,209
Contributions to UIF, Medical and Pension Funds	229,668	122,358
Bonus	58,802	78,749
	1,460,715	1,428,755

Ms M Mmope is appointed as Director Community Development.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

36. Finance costs

Finance lease	332,960	721,711
Current borrowings	19,848,746	4,122,874
Defined benefit plan	19,950,483	8,176,000
	40,132,189	13,020,585

The discounting rate used for the finance lease obligation is the incremental borrowing rate of 9.04%. For the landfill site, the rate used to discount cash flows is the rate of 2.4107% plus the net effective discount rate of 5%, thus the discounting rate used is 7.4107%.

37. Other operational expenses

Advertising	1,203,437	2,437,701
Attending of meetings and congresses	6,600	178,753
Audit committee costs	870,575	731,433
Auditors remuneration	11,939,243	7,876,988
Bank charges	3,399,407	1,037,422
Chemical cost	9,486,569	7,561,890
Community development and training	46,770	230,668
Community participation	723,635	1,102,555
Consulting and professional fees	30,171	2,906,961
Consumables	15,967,095	24,399,282
Corporate identity	-	34,600
Debt collection	168,727	201,724
Grant expenses	71,667	97,095
Geographical information system	532,240	149,072
IDP process	4,900	-
Insurance	18,183,390	20,123,465
Licence fees	3,201,229	750,021
Marketing	165,200	79,600
Mayoral out-reach programme	228,280	782,965
Mobile chemical toilets	50,330	226,117
Motor vehicle expenses	632,430	493,242
Other expenses	9,588,635	5,543,335
Postage and courier	11,303	29,038
Printing and stationery	2,564,075	2,971,634
Protective clothing	3,171,227	3,593,297
Refuse	1,204,075	2,803,580
Repairs and maintenance	105,640,324	118,877,777
SALGA	4,087,100	4,051,230
Sport development	5,250	59,317
Social programmes	197,000	142,332
Subscriptions and membership fees	71,145	109,801
Telephone and fax	5,896,866	3,581,334
Training cost	1,685,995	2,014,200
Travel and accommodation	6,737,040	10,191,636
Unauthorised debit orders	18,213,696	6,371,987
Water and electricity	19,124,835	15,829,784
Ward committees expenses	3,885,000	6,636,750
Write offs	564,074	(715,142)
	249,559,535	253,493,444

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

38. Lease rentals on operating lease

Motor vehicles

Contractual amounts 83,383,466 83,383,466

Equipment

Contractual amounts 4,948,305 7,524,856

88,331,771 90,908,322

Minimum lease payments due-operating lease as lessee-Motor vehicles

-within one year 37,776,414 83,383,466

-in the second to fifth year inclusive - 34,743,111

37,776,414 118,126,577

Minimum lease payments due- Printers and Laptops (IT Services)

-within one year 13,603,995 4,948,305

-in the second to fifth year inclusive 2,267,333 824,717

15,871,328 5,773,022

39. Cash generated from (used in) operations

Deficit (322,946,224) (276,859,040)

Adjustments for:

Depreciation and amortisation 322,613,883 333,767,326

Gain on sale of assets and liabilities 16,577,854 3,024,921

Fair value adjustments 144,922 (7,175,211)

Debt impairment 434,170,002 118,701,905

Movements in operating lease assets and accruals (8,457,623) (17,978,896)

Movements in retirement benefit assets and liabilities 5,754,856 (4,085,167)

Movements in provisions 6,737,241 (12,696,132)

Annual charge for deferred tax - (8,800,000)

Finance Costs 39,944,151 13,923,663

Interest earned -outsanding receivables (130,798,400) (85,965,215)

(Gain)/Loss on provision for landfill site provison 6,737,241 -

Changes in working capital:

Inventories (7,208,374) (6,918,273)

Receivables from exchange transactions (446,191,458) (217,930,835)

Other receivables from non-exchange transactions (67,311,051) (488,327,016)

Prepayments 7,268,710 (8,978)

Other asset 1 - 6,837,619

Other asset 2 - 14,706,678

Payables from exchange transactions 339,166,636 396,740,579

VAT payable (1,486,455) -

Taxes and transfers payable (non-exchange) - (78,744,415)

Unspent conditional grants and receipts 124,871,734 15,915,911

Other Financial assets - 24,855,698

(Decrease) / Increase other financial assets - -

318,831,942 (277,014,878)

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

40. Commitments

Authorised capital expenditure

Commitments approved and contracted for

• Water	78,103,605	69,270,062
• Sanitation	27,666,257	46,470,400
• Roads and storm water	58,822,870	13,500,061
• Other projects	4,995,455	18,601,161
	169,588,187	147,841,684

Total capital commitments

Already contracted for but not provided for	169,588,187	147,841,684
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Authorised operational expenditure

This committed expenditure relates to property and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

41. Auditors' remuneration

Fees	11,939,243	7,876,988
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MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

42. Contingent liabilities

Contingent liabilities

White Leopard-Claim for services rendered to the municipality	-	5,569,102
Chiefton Facility Management-Claim for payment of invoices issued for work allegedly done.	-	985,425
Sobeka Engineering-claiming for services rendered and cancellation of contract	7,878,689	7,878,689
Sechaba Traffic Solutions- Claiming damages for breach of contract.	1,102,902	1,102,902
Petros Rademan-The Plaintiff is suing the municipality for medical expenses, pain and suffering and general damages which he suffered when he was electrocuted allegedly as a result of a prepared metre installed by the municipality	4,000,000	4,000,000
Oppcrete Prop Development-Claiming for losses suffered as a result of setting aside of section 82 certificates	-	5,411,582
Shane Noel Adams-Claiming for payment for personal injury and damage to motor vehicles allegedly caused by potholes	-	3,400,000
Moopa Trading-Plaintiff is claiming for repudiation of contract for collection and transportation of refuse from Madidi and disposing it off to Waste Transfer Station.	-	1,020,000
Naledimiso Trading-Plaintiff is claiming for repudiation of contract for collection and transportation of refuse from Klpgat and disposing it off to Waste Transfer Station.	-	898,800
Outdoor Sensation	-	890,400
William Moeketsi	1,060,000	1,060,000
Unadile Pty Ltd	-	2,995,000
Summons against the municipality	-	772,450,315
Kuhle General Consulting-The Plaintiff is claiming for allegedly services rendered.	1,837,641	1,837,641
Kuhle General Consulting-The Plaintiff is claiming for breach of contract	25,677,878	25,677,878
Treru Civil Construction-The Plaintiff is claiming for standing time	3,670,695	3,670,695
Fantique Trading	2,291,359	2,291,359
Balaphorwa	-	620,668
Magalies Water	36,550,923	36,550,923
Barlow and other- Refund for rates and taxes paid under taxes	-	195,921
S Sechabela- The Plaintiff is suing the municipality for damages incurred as a result of injuries sustained when she fell into a sewerage drain which was allegedly open and unattended	250,000	250,000
Telkom- The Plaintiff is claiming for allegedly damages to its copper cables caused by the municipality	178,181	178,181
Donovan David Peter De Bryun-Claiming for loss suffered as a result of the municipality allegedly as a result of the breach of its statutory and or legal duty to erect a stop sign and or to maintain the road signs and in particular to ensure the visibility of warning signs among others	250,000	250,000
SADC Directory Services (Pty) Ltd-The Plaintiff issued a summon against the municipality for allegedly directory services in the form of a full colour page display advertorial in terms of partly verbal and partly written contract entered into for a period of 12 months. Subsequent to the issuing of summons, the Plaintiff filed a summary judgement application	273,531	273,532
Nurumahomed Aboobakar-For damages which allegedly occurred as a result of negligence when electricity supply was restored.	-	15,929
Alwyn Theron- The Plaintiff is claiming for damages that occurred to his vehicle by hitting a pothole whilst driving at old Rustenburg road.	-	30,136
Pieter Jooste- For damages which occurred to the Plaintiff's car when it collided with a pothole.	-	37,166
Rookopies Oos Water Users Association-For levy owed to Plaintiff in respect of maintenance and running costs	-	86,755
Andries Hendrik Vermaak-Plaintiff is suing the municipality for damages which occurred as a result of the Plaintiff's car colliding with a large pothole that is situated within the municipality's jurisdiction. No payment has been made.	9,266	9,266
Telkom-Claiming for payment of damages of its copper cables allegedly caused by the municipality	36,085	36,085
Telkom-Plaintiff is claiming for payment of its cables damaged by the municipality in Mnakau, Sonop, Mothutlung	-	35,932
Bezuidenhout-Claiming for damages allegedly caused by a pothole	-	23,661
Heinrich F.E Jansen- Claiming for damages as a result of a pot hole accident.	-	67,640

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

42. Contingent liabilities (continued)

Johan Christo Lotter NO Granite Cutting Works Pty Ltd-The Plaintiff is claiming for allegedly for losses in production suffered by the Plaintiff due to unsubstantiated disconnection of electricity to Granite cutting works	-	35,103
Stephen Mphedi Madiro-The Plaintiff is suing Madibeng and Bonjanala Municipality for damages suffered due to Madibeng and Bonjanala's failure to to maintain sewage system that has caused raw sewerage to spill into his property	16,842,500	-
Boss Directory Services-The Plaintiff is claiming for service rendered	683,726	-
Serajile Trading and Projects	178,500	-
Freddy Sello Lamo	6,000,000	-
Black Forum Africa / Morris Mahlangu Glory	2,800,000	-
PIC-PIC advanced a loan to Madibeng Local Municipality (the then Brits Town Council) and secured them by way of zero coupon certificates in June 2019 there was a court judgement that was not in favour of the municipal and the management is appealing this judgement.	162,639,962	162,639,962

274,211,838 1,042,476,648

Contingent assets

Emerald Sky Trading 570 (Pty) Ltd	581,420	581,420
Daybreak Properties and auctioneers	-	1,021,137

581,420 1,602,557

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

43. Prior period errors

Presented below are those items contained in the statement of financial position and statement of financial performance that have been affected by prior year adjustments.

Statement of financial position	Audited AFS 2019	Restated balance	Reclassificati on	Restated amount
43.1 Other financial assets	-	-	13,225,783	13,225,783
43.2 Receivables from non exchange	19,851,178	(5,153,478)	-	14,697,700
43.3 VAT Receivables	30,205,717	-	(30,205,717)	-
43.4 Receivables from exchange	285,587,258	(85,423,045)	-	200,164,213
43.5 Cash and cash equivalents	3,511,804,680	(140,755,164)	(3,422,633,844)	(51,584,328)
43.6 Investment Property	100,370,000	80,000	-	100,450,000
43.7 Property Plant and Equipment	5,320,639,010	131,460,154	-	5,452,099,164
43.8 Other financial assets - Non current	13,225,782	-	(13,225,782)	-
43.9 Payables from exchange transactions	(1,057,552,382)	(49,760,553)	-	(1,107,312,935)
43.10 VAT payables	-	28,474,274	(30,205,717)	(1,731,443)
43.11 Finance lease obligation	-	(7,912,716)	-	(7,912,716)
43.12 Payables from non exchange	-	(52,816,700)	52,816,700	-
43.13 Bank overdraft	(3,422,633,844)	3,422,633,844	-	-
43.14 Operating lease liability	(80,107,221)	52,407,581	-	(27,699,640)
43.15 Employee benefit obligation	(212,758,405)	(2,339,228)	-	(215,097,633)
	4,508,631,773	3,290,894,969	(3,430,228,577)	4,369,298,165

Statement of financial performance	Audited AFS 2019	Restated balance	Reclassificati on	Restated amount
43.16 Service charges	677,315,512	57,836,871	-	735,152,383
43.17 Rental of facilities	1,099,009	(7,975)	-	1,091,034
43.18 Commissions received	13,215,741	(13,215,741)	-	-
43.19 Other operational revenue	10,881,486	265,096	-	11,146,582
43.20 Interest received - Debtors	56,619,837	35,188,789	(5,843,411)	85,965,215
43.21 Intrest received - Investments	-	-	5,843,411	5,843,411
43.22 Fair value adjustment	8,800,000	-	(8,800,000)	-
43.23 Property rates	250,713,059	(10,649,043)	-	240,064,016
43.24 Government grants and subsidies	858,498,726	1,446,363	-	859,945,089
43.25 Employee related costs	500,089,433	889,995	-	500,979,428
43.26 Remuneration to councillors	31,050,339	(6,979)	-	31,043,360
43.27 Depreciation	476,380,017	(59,725,529)	-	416,654,488
43.28 Impairment loss	637,351	(637,351)	-	-
43.29 Finance costs	4,698,825	9,946,549	-	14,645,374
43.30 Rentals of operating lease	38,625,004	50,336,694	-	88,961,698
43.31 Bulk purchases	814,197,541	(30,299,994)	-	783,897,547
43.32 Contracted services	147,440,398	(5,970,220)	-	141,470,178
43.33 Transfer subsidies	374,480	(43,821)	-	330,659
43.34 Other operational expenses	238,781,106	16,658,963	-	255,440,069
43.35 Loss on disposal of assets	8,312,803	7,408,250	-	15,721,053
44.43 Fair value adjustment	-	-	8,800,000	8,800,000
	4,137,730,667	59,420,917	-	4,197,151,584

43.1 Other financial assets

Reclassification of the investment which were disclosed under Non-current assets to current assets.

43.2 Receivables from non exchange transactions

Due to reclassification from receivable votes that were incorrectly classified in the current year.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

43. Prior period errors (continued)

43.3 VAT Receivables

This is due to the netting off VAT receivables and VAT Payable amounts as well as VAT impact due to other prior year adjustments)

43.4 Receivables from exchange transactions

Due to reclassification from receivable votes that were incorrectly classified in the current year.

43.5 Cash and cash equivalents

The adjustment was due to the reperformance of bank reconciliation to adjust the transactions for the prior year..

43.6 Investment Property

This adjustment is due to new discoveries, transfers from investment property and capitalisation of completed projects.

43.7 Property Plant and Equipment

This adjustment is due to new discoveries, transfers from investment property and capitalisation of completed projects..

43.8 Payables from exchange transactions

This is due to reclassification of some vote number into this account and correction of journals wrongly passed in the prior year. Also due to capturing of invoices.

43.9 VAT Payable

Correction of expenditure and revenue which resulted in VAT payable.

43.10 Finance lease

This is due to recognition of a finance lease not previously included..

43.11 Payables from non exchange transactions

Reclassifican from payables from exchange transactions

43.12 Bank overdraft

This is due to reclassification of some vote number into this account

43.13 Operating lease liability`

Correction of an error due to lease smoothing.

43.14 Employee benefit obligation

This is due to reclassification of some vote number into this account

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Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

43. Prior period errors (continued)

44.15 Service charges

This is due to reclassification of accounts previously incorrectly included in service charges.

43.16. Rental of facilities

Remapping of incorrect votes mapped under service charges

43.15 Commission received

43.17. Interest received - Debtors

Due to restatement of debtors, the interest received was also adjusted.

43.18 Interest received - Investments

Incorrect vote mapped under investment received.

43.19 Fair value adjustments

44.20. Property rates

This was due to a reversal of entries incorrectly recorded in the current year and restatement of duplicate billing of rates..

43.21 Government grants and subsidies

44.22 Employee costs

Reclassification of votes that were previously misclassified in the prior year

43.23 Remuneration of councillors

The incorrect votes mapped under the councillors

44.24 Depreciation

This adjustment is due to new discoveries, transfers from investment property and capitalisation of completed projects.

44.25 Debt impairment

Due to debtors adjustment, reperformance of debt impairment calculation performed.

43.15 Finance costs

Adjusting the interest cost not recorded.

43.15 Rentals on operating lease

Correcting the incorrect invoices captured in the wrong financial years

43.15 Bulk purchases

Restatement of incorrect invoices captured in the prior years

44. 32 Contracted services

This was due to the reclassification of items from revenue.

43.15 Transfer and subsidy

This is due to incorrect votes mapped

44.33 Other operational expenses.

Correction of an error due to reclassification of several vote numbers

44.24 Loss on disposal of assets

Correction of an error due to reclassification of several vote numbers This adjustment in amount was due to recognition of prior

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

43. Prior period errors (continued)

year disposed assets that had not been removed from the Fixed assets regist

43.15 Fair value adjustment

The Employment benefit obligation adjustment and assest revaluation

44. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality 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 accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provide 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.

Liquidity risk

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

Credit risk

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

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

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

Financial instrument	2020	2019*restated
Other financial assets	7,288,733	13,225,781
Receivables from exchange transactions	212,185,669	200,164,213
Receivable from non-exchange transaction	82,008,751	14,697,700
Cash and cash equivalents	260,690,605	51,584,328
Payables from exchange transactions	1,446,479,564	1,107,312,924

Market risk

Interest rate risk

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

45. Going concern

We draw attention to the fact that at June 30, 2020, the municipality had an accumulated surplus (deficit) of 4,102,422,948 and that the municipality's total liabilities exceed its assets by 4,102,422,948.

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45. Going concern (continued)

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

46. Events after the reporting date

After the end of the 30 June 2020 year end. The following non-adjusting events took place:

- The municipality was placed under Section 139 administration.
- A three new directors were appointed to act in the following positions:
 - CFO Mr. T Lefutswe
 - Director Technical Service Mr. M Church
 - Administrator Adv Motlogelwa
 - Municipa Manger Mr. N Maape

47. Unauthorised expenditure

Opening balance as previously reported	2,368,454,831	1,593,652,097
Correction of prior period error		- 774,802,734
Opening balance as restated	2,368,454,831	2,368,454,831
Add: Expenditure identified - current	88,124,311	-
Closing balance	2,456,579,142	2,368,454,831

48. Fruitless and wasteful expenditure

Opening balance as previously reported	37,284,463	33,143,433
Opening balance as restated	37,284,463	33,143,433
Add: Expenditure identified - current	26,078,751	4,141,030
Unauthorised debit orders	1,832,201	6,371,988
Less: Reversal of unauthorised debit orders - prior period	-	(6,371,988)
Closing balance	65,195,415	37,284,463

The current year fruitless and wasteful expenditure amounting to R17 364 910 relates to interest charged on late payments of invoices from Eskom , Rand Water-R363 154.23, City of Tshwane-R4 568 799.40, Auditor General South Africa-R672 961.88 and the Department of Water and Sanitation-R 3 011 710.95.

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Figures in Rand	2020	2019
49. Irregular expenditure		
Opening balance as previously reported	1,818,618,334	1,396,228,574
Correction of prior period error	104,439,195	152,898,762
Reversal of unauthorised debit orders	(6,371,988)	(10,621,497)
Opening balance as restated	1,916,685,541	1,538,505,839
Amounts investigated found not irregular	-	204,020
Add: Irregular Expenditure for the year	244,970,443	273,944,537
Unauthorised debit orders	-	6,371,988
Add: Prior period error correction	-	104,439,195
Closing balance	2,161,655,984	1,923,465,579
Categories of irregular expenditure		
Competitive bidding not invited	244,161,813	256,912,632
Three written quotations not invited	530,070	7,860,427
Declaration of interest not submitted	278,560	1,480,019
	244,970,443	266,253,078
Cases under investigation		
Four municipal officials are currently on suspension for non-compliance with procurement process requirements.		
50. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Current year subscription / fee	4,087,100	4,051,230
Material losses through criminal conduct		
Opening balance	16,993,485	10,621,497
Add: Unauthorised debit orders	1,832,201	6,371,988
	18,825,686	16,993,485
The amounts included herein relate to the unauthorised debit orders that resulted in the municipality incurring expenditure that does not serve the mandate of the Madibeng Local Municipality.		
Audit fees		
Current year fee	9,626,581	7,876,988
Amount paid - current year	(3,693,084)	(7,876,988)
	5,933,497	-
PAYE, Skills and UIF		
Opening balance	4,961,766	3,915,350
Current year fee	91,892,295	77,896,548
Amount paid - current year	(89,435,018)	(76,850,132)
	7,419,043	4,961,766

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Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
50. Additional disclosure in terms of Municipal Finance Management Act (continued)		
Pension and Medical Aid Deductions		
Opening balance	10,323,972	7,412,300
Current year fee	168,163,111	144,708,964
Amount paid - current year	(169,225,036)	(141,797,292)
	9,262,047	10,323,972

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand

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2019

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at June 30, 2020:

30 June 2020	Less than 90 days	90 days and more	Total
MG Sakidge	3,376	103,769	107,145
AM Modisakeng	10,661	102,430	113,091
MD Khumalo	2,194	90,039	92,233
PK Mawayi	6,299	74,396	80,695
NB Muhlanga	5,929	72,586	78,515
JM Mothibe	8,275	62,035	70,310
J Ratloi	3,158	47,726	50,884
W Modiba	1,948	47,426	49,374
MP Tlhopane	9,350	45,540	54,890
DS Maimane	3,741	30,795	34,536
RG Sithole	2,972	25,596	28,568
M Du Plessis	2,697	9,664	12,361
MS Mloi	2,987	8,129	11,116
MW Motlhasedi	823	8,720	9,543
SDN Nthangeni	223	8,337	8,560
KSN Ntshabele	222	8,273	8,495
MM Sekgothe	195	6,977	7,172
OD Marapyane	182	6,405	6,587
OP Mosielele	182	6,346	6,528
E Van Der Schyff	6,211	-	6,211
TS Bogale	-	5,949	5,949
SM Maunatlala	163	5,005	5,168
AS Rakomane	-	3,328	3,328
JT Moabi	-	3,226	3,226
LG Mhlambi	-	3,327	3,327
MD Mosolodi	-	3,226	3,226
TM Modiha	-	3,226	3,226
J Piertse	2,949	-	2,949
RNJ Breytenbach	2,731	-	2,731
ED Diale	2,317	-	2,317
WS Ramaboa	-	1,872	1,872
PA Phetle	-	1,847	1,847
CS Sekhoto	-	1,846	1,846
KS Tlapu	-	1,846	1,846
P Pretorious	-	1,846	1,846
AWS Malatse	-	1,843	1,843
RR Mohulatsi	-	1,843	1,843
BA Maubane	-	1,754	1,754
JM Modipane	-	1,754	1,754
AI Molotsi	-	1,744	1,744
EM Nkoe	-	1,744	1,744
FM Masemola	-	1,744	1,744
J Mosito	-	1,744	1,744
MA Mokgoko	-	1,744	1,744
ML Makgale	-	1,744	1,744
NM Maqakamba	-	1,744	1,744
PB Makgabo	-	1,744	1,744
RP Padi	-	1,744	1,744
T Mokwena	-	1,744	1,744
II Maledu	-	1,738	1,738
RE Dikgang	-	1,379	1,379
CM Mampuru	-	1,374	1,374
WJ Muller	1,021	279	1,300

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
50. Additional disclosure in terms of Municipal Finance Management Act (continued)		
KS Komape	518	518
JC Van Rhyn	-	14
HT Phalwane	-	7
	81,324	831,158
		912,482

Supply chain management regulations

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

51. Licences and permits (exchange)

Road and Transport	5,671,150	6,644,262
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52. Fines, Penalties and Forfeits

Law Enforcement Fines	4,091,034	155,322
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53. Other revenue

Commissions received	11,009,754	13,215,741
Other operational revenue	8,132,008	11,146,582
	19,141,762	24,362,323

54. Public contributions and donations

Reconciliation of conditional contributions

Current-year receipts	39,000	-
Conditions met - transferred to revenue	(39,000)	-
	-	-

A donation was received from Bridgestone SA (Pty) Ltd-Brits Plant. The donation was in the form of COVID 19 deep cleaning and disinfection of surface areas at the municipal main offices. There were no conditions attached to this donation.

MADIBENG LOCAL MUNICIPALITY

Annual Financial Statements for the year ended June 30, 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
55. Operating deficit		
Operating deficit for the year is stated after accounting for the following:		
Operating lease charges		
Motor vehicles		
• Contractual amounts	83,383,466	83,383,466
Equipment		
• Contractual amounts	4,948,305	7,524,856
	88,331,771	90,908,322
Loss on sale of property, plant and equipment	(9,840,613)	(15,721,053)
Gain (loss) on biological assets and agricultural produce	6,737,241	(12,696,132)
Amortisation on intangible assets	1,633,849	924,062
Depreciation on property, plant and equipment	320,980,034	332,843,264
Employee costs	601,678,252	532,022,789

56. Comparative figures

Certain comparative figures have been reclassified.

The effects of the reclassification are disclosed in the prior period error note.

57. Deviation from supply chain management regulations

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

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

The following were deviations were noted:

Licence renewals and procurement of softwares R150 000

Purchase of goods and services R83 000

Repairs to machinery, equipment, plant, fleet where it is not possible to ascertain the extent of the work required R135 215.

In any other exceptional case where it is impractical or impossible to follow official procurement processes R6 481 237.

58. Budget differences

Material differences between budget and actual amounts

1. Service charges credit control policy was implemented extensively during the financial service charges credit control policy was implemented extensively during the financial year

2. Interest on Investment-cash flow challenges impeded the municipality from investing as planned

3. Other revenue-Some of the votes on other revenue were under budgeted.

4. Agency fee renewal- due lockdown our licensing offices were closed for license disk

5. Property rates - due to adjustment of duplicate property accounts. I

6. Interest on debtors due to culture of non-payment by consumers and also areas were we only charge property rates and we are unable to implement credit control

MADIBENG LOCAL MUNICIPALITY

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Notes to the Annual Financial Statements

Figures in Rand

58. Budget differences (continued)

7. Transfers and subsidies-on the budget we accounted for the operational expenses of MIG grant

8. Employee costs-due to overtime expenditure

9. Depreciation-the votes was over budgeted based on prior expenditure

10. Finance Costs- the votes was over budgeted based on prior expenditure

11. Repairs and maintenance- most of the repairs and maintenance is done through contracted services hence it was under budgeted and expenditure on contracted services are over budgeted

12. Debt impairment-change in estimate methodology

13. Bulk purchases-interest charged on late payment

14. Contracted Services-most of the repairs and maintenance is done through contracted services hence it was under budgeted and expenditure on contracted services are over budgeted

15. Other operational expenditure-the votes was under budgeted