



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

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

General Information

Mayoral committee

Executive Mayor

Speaker

Chief Whip

Councillors

Hon Cllr L.Malwane

Hon Cllr U.P. Lobelo

Hon Cllr T.A. Morei

Cllr L. Bome

Cllr S.V. Moremedi

Cllr M.M. Moreo

Cllr K.E. Blou

Cllr S.T. Lerumo

Cllr A.T. Modise

Cllr B. Phutiyagae

Cllr N.J. Molehabangwe

Cllr T.E. Chabanku

Cllr T.S. Tsholo

Cllr M.E. Booï

Cllr M.S. Letlakane

Cllr A.T. Mabovu

Cllr P.M. Mokoto

Cllr T.D. Mthimkulu

Cllr O.J. Makalela

Cllr E.S. Sedumoeng

Cllr S. Viljoen

Cllr E.M. Thobengani

Cllr T.P. Miga

Cllr J.K. Mangwejane

Cllr L.Y. Taljaard

Cllr G.E. Kgasu

Cllr K.C. Seduko

Cllr G.B. Madebe

Cllr J.H. Botha

Kgosi J.E.F. Molete

Kgosi C. Moshoeite

Grading of local authority

Low capacity (Grade 3)

Accounting Officer

Mr M. I. Moruti

Registered office

Cnr. General Delarey and Government Street
Delareyville
2770

Business address

Cnr. General Delarey and Government Street
Delareyville
2770

Postal address

P O Box 24
Delareyville
2770

Bankers

First National Bank

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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Tswaing Local Municipality

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Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

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

The annual financial statements set out on page 5 - 71, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 October 2020.

Mr M.I. Moruti
Accounting Officer

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Officer's Report

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

1. Review of activities

Main business and operations

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

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

Net deficit of the municipality was R 11 364 311 (2019: deficit R 49 952 318).

2. Going concern

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

3. Accounting Officers' interest in contracts

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

4. Accounting policies

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

5. Corporate governance

General

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

6. Bankers

The banker of Tswaing Local Municipality is First National Bank.

7. Auditors

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

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
Assets			
Current Assets			
Inventories	2	8 126 811	8 478 043
Receivables from exchange transactions	3	16 657 679	1 137 185
Receivables from non-exchange transactions	4	8 169 303	10 192 389
VAT receivable	45	9 762 670	6 594 537
Trade and other receivables from exchange	5	28 003 751	13 618 721
Cash and cash equivalents	6	7 917 007	914 057
		78 637 221	40 934 932
Non-Current Assets			
Biological assets	7	2 290 150	1 968 300
Investment property	8	59 637 597	59 801 987
Property, plant and equipment	9	663 410 659	669 528 555
Heritage assets	10	953 000	953 000
Other financial assets	11	489 182	673 683
		726 780 588	732 925 525
Total Assets		805 417 809	773 860 457
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	228 496 684	191 968 218
Consumer deposits	13	1 253 310	1 223 477
Employee benefit obligation	44	846 475	855 909
Unspent conditional grants and receipts	14	4 132 760	-
		234 729 229	194 047 604
Non-Current Liabilities			
Employee benefit obligation	44	36 810 635	42 000 617
Provisions	15	38 464 226	31 034 205
		75 274 861	73 034 822
Total Liabilities		310 004 090	267 082 426
Net Assets		495 413 719	506 778 031
Accumulated surplus		495 413 719	506 778 031

* See Note 51 & 50

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	17	88 935 400	64 195 690
Rental of facilities and equipment		153 953	204 878
Licences and permits		2 289 516	3 022 661
Other income	18	3 332 922	2 536 798
Interest received - investment	19	280 933	80 325
Dividends received	19	24 845	29 975
Total revenue from exchange transactions		95 017 569	70 070 327
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	20	19 331 233	18 959 089
Transfer revenue			
Government grants & subsidies	21	177 942 622	138 527 300
Fines		146 643	233 782
Other income	18	4 372	9 479
Total revenue from non-exchange transactions		197 424 870	157 729 650
Total revenue	16	292 442 439	227 799 977
Expenditure			
Employee related costs	22	(92 198 373)	(85 375 966)
Remuneration of councillors	23	(11 102 483)	(12 495 030)
Depreciation and amortisation	24	(39 646 047)	(38 299 176)
Finance costs	26	(15 040 500)	(12 679 822)
Lease rentals on operating lease		(664 827)	(824 551)
Debt Impairment	27	(38 623 842)	(26 274 504)
Bad debts written off		(555 148)	-
Loss due to undeposited receipts	48	(133 305)	(462 307)
Bulk purchases	28	(40 104 481)	(35 934 259)
Contracted services	29	(8 149 818)	(7 068 784)
Fines and penalties	47	(4 040 307)	(4 260 285)
General Expenses	30	(54 197 863)	(47 893 231)
Total expenditure		(304 456 994)	(271 567 915)
Operating deficit	33	(12 014 555)	(43 767 938)
Loss on disposal of assets and liabilities		(512 157)	(2 240 892)
Fair value adjustments	31	(184 501)	53 316
Actuarial gains/losses	44	11 161 332	(3 335 476)
Gain on biological assets		321 850	52 000
Impairment loss	25	(10 075 986)	(591)
Inventories losses/write-downs		(60 294)	(712 737)
		650 244	(6 184 380)
Deficit for the year		(11 364 311)	(49 952 318)

* See Note 51 & 50

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	487 799 623	487 799 623
Adjustments		
Correction of errors	68 930 727	68 930 727
Balance at 01 July 2018 as restated*	556 730 350	556 730 350
Changes in net assets		
Correction of errors	(4 444 374)	(4 444 374)
Deficit as previously reported	(45 507 945)	(45 507 945)
Total changes	(49 952 319)	(49 952 319)
Restated* Balance at 01 July 2019	506 778 030	506 778 030
Changes in net assets		
Deficit for the year	(11 364 311)	(11 364 311)
Total changes	(11 364 311)	(11 364 311)
Balance at 30 June 2020	495 413 719	495 413 719
Note(s)		

* See Note 51 & 50

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
Cash flows from operating activities			
Receipts			
Interest income		280 933	80 325
Dividends		24 845	29 975
Cash receipts from ratepayers, government and others		225 487 433	192 689 427
		<u>225 793 211</u>	<u>192 799 727</u>
Payments			
Interest paid		(9 147 044)	(8 041 088)
Cash paid to suppliers and employees		(165 691 313)	(148 296 762)
		<u>(174 838 357)</u>	<u>(156 337 850)</u>
Net cash flows from operating activities	34	<u>50 954 854</u>	<u>36 461 877</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	9	(43 951 904)	(35 641 668)
Net increase/(decrease) in cash and cash equivalents		7 002 950	820 209
Cash and cash equivalents at the beginning of the year		914 057	93 848
Cash and cash equivalents at the end of the year	6	<u>7 917 007</u>	<u>914 057</u>

* See Note 51 & 50

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	54 130 490	10 065 113	64 195 603	88 935 400	24 739 797	N1
Rental of facilities and equipment	416 170	-	416 170	153 953	(262 217)	N2
Licences and permits	1 561 354	-	1 561 354	2 289 516	728 162	N3
Other income	1 252 000	-	1 252 000	3 332 922	2 080 922	N4
Interest received - investment	118 285	-	118 285	280 933	162 648	N5
Dividends received	22 216	-	22 216	24 845	2 629	
Total revenue from exchange transactions	57 500 515	10 065 113	67 565 628	95 017 569	27 451 941	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	21 727 000	(2 768 000)	18 959 000	19 331 233	372 233	
Transfer revenue						
Government grants & subsidies	120 665 000	268 000	120 933 000	177 942 622	57 009 622	N6
Fines	90 016	-	90 016	146 643	56 627	
Other income	-	-	-	4 372	4 372	
Total revenue from non-exchange transactions	142 482 016	(2 500 000)	139 982 016	197 424 870	57 442 854	
Total revenue	199 982 531	7 565 113	207 547 644	292 442 439	84 894 795	
Expenditure						
Employee related costs	(84 427 000)	-	(84 427 000)	(92 198 373)	(7 771 373)	N7
Remuneration of councillors	(10 075 870)	(1 200 000)	(11 275 870)	(11 102 483)	173 387	
Depreciation	(27 426 000)	5 000 000	(22 426 000)	(39 646 047)	(17 220 047)	N8
Impairment loss	-	-	-	(10 075 986)	(10 075 986)	N9
Finance costs	(808 000)	-	(808 000)	(15 040 500)	(14 232 500)	N10
Lease rentals on operating lease	-	-	-	(664 827)	(664 827)	N11
Debt impairment	(55 368 967)	24 850 000	(30 518 967)	(38 623 842)	(8 104 875)	N12
Bad debts written off	-	-	-	(555 148)	(555 148)	N13
Loss on undeposited receipts	-	-	-	(133 305)	(133 305)	N14
Bulk purchases	(42 422 000)	2 000 000	(40 422 000)	(40 104 481)	317 519	
Contracted Services	(18 739 000)	10 135 000	(8 604 000)	(8 149 818)	454 182	
Fines and penalties	-	-	-	(4 040 307)	(4 040 307)	N15
General Expenses	(18 672 390)	4 051 000	(14 621 390)	(54 197 863)	(39 576 473)	N16
Total expenditure	(257 939 227)	44 836 000	(213 103 227)	(314 532 980)	(101 429 753)	
Operating deficit	(57 956 696)	52 401 113	(5 555 583)	(22 090 541)	(16 534 958)	
Loss on disposal of assets and liabilities	-	-	-	(512 157)	(512 157)	N17
Fair value adjustments	-	-	-	(184 501)	(184 501)	N18
Actuarial gains/losses	-	-	-	11 161 332	11 161 332	N19
Gain on biological assets and agricultural produce	-	-	-	321 850	321 850	N20
Inventories losses/write-downs	-	-	-	(60 294)	(60 294)	N21

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
	-	-	-	10 726 230	10 726 230	
Deficit before taxation	(57 956 696)	52 401 113	(5 555 583)	(11 364 311)	(5 808 728)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(57 956 696)	52 401 113	(5 555 583)	(11 364 311)	(5 808 728)	

Please refer to note 43 for explanations on the budget differences. Explanations for the budget adjustments have been included in the budget adjustment report. This report has been presented to council and provincial treasury.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Significant judgements and sources of estimation uncertainty

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

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

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

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

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash generating units and individual assets have been determined based on expected cash flows. Expected cash flows are calculated by multiplying the average collections ratio over a three year period by the closing balance as per the debtors ageing analysis.

Provision for doubtful debts

The Municipality has assessed that none of the debtors are individually significant as no individual debtor has a balance that exceeds twenty five percent of the total debtors balance. As a result all debtors are included in the same population (before splitting in groups) for the impairment calculation.

Debtors are grouped into three different categories based on their payment history

Group 1: Customers with no non payments in the past (These would typically be customers that made payments every month over the twelve month period. In addition Group 1 includes government debtors which are assumed to be fully recoverable.

Group 2: Customers with non-payments in the past but where some amounts were recovered (These would typically be customers that did not make payments every month over the twelve month period.)

Group 3: Customers who typically fail to pay on a month on month basis with very little probability of recovery of any of the outstanding amount (These would typically be those customers who never made a single payment during the twelve month period.)

Based on this information, the following impairment calculation is applied:

Group 1: Since the customers in Group 1 made at least twelve payments during the financial year ended 30 June 2020, the amounts owing are considered to be fully recoverable. As a result, the expected cash flows are equal to the carrying amount.

Group 2: The expected cash flows are calculated by multiplying the collections ratio over a three year period by the closing balance as per the debtors ageing analysis.

Group 3: The expected cash flows are calculated by multiplying the collections ratio over a three year period by the closing balance as per the debtors ageing analysis..

Provisions

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

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 44.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

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

1.4 Biological assets

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

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

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

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

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

1.5 Investment property

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

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

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

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

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

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

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

Cost model

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

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

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

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

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

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Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.5 Investment property (continued)

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

The nature OR type of properties classified as held for strategic purposes are as follows:

1.6 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.

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

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Buildings	Straight line	50 years
Machinery and Equipment	Straight line	5 - 10 years
Furniture and fixtures	Straight line	5 - 12 years

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.6 Property, plant and equipment (continued)

Motor vehicles	Straight line	5 - 10 years
Office equipment	Straight line	5 - 10 years
Other Assets	Straight line	5 - 10 years
Computer equipment	Straight line	3 - 7 years
Infrastructure community	Straight line	5 - 100 years
Roads network infrastructure	Straight line	5 - 100 years
Storm water infrastructure	Straight line	5 - 100 years
Water supply infrastructure	Straight line	5 - 100 years
Electrical network infrastructure	Straight line	5 - 100 years
Sanitation network infrastructure	Straight line	5 - 100 years
Solid waste infrastructure	Straight line	5 - 100 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.

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.

1.7 Heritage assets

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

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

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note).

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.

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Accounting Policies

1.7 Heritage assets (continued)

Heritage assets are measured at cost.

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

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

The municipality assess 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.

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 entity and a financial liability or a residual interest of another entity.

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

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

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

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

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

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

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

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Accounting Policies

1.8 Financial instruments (continued)

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.8 Financial instruments (continued)

- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Classification

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

Class	Category
Trade and Other Receivables	Financial asset measured at amortised cost
Bank balances	Financial asset measured at amortised cost
Listed shares	Financial asset measured at fair value

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

Class	Category
Trade and Other Payables	Financial liability measured at amortised cost

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

Listed shares are measured at fair value using market values at year end.

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 Consumer deposits

Consumer deposits consist of rental deposits received from tenants when they occupy the municipality's properties. The deposits are payable to the tenants when they leave the properties and they are therefore accounted for as payables.

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Accounting Policies

1.10 Leases

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

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

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

1.11 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.

1.12 Impairment of cash-generating assets

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

Tswaing Local Municipality

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Accounting Policies

1.12 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

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

Useful life is either:

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

Judgements made by management in applying the criteria to designate assets as cash-generating assets or non-cash-generating assets, are as follows:

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

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

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

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

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

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

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

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

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

Useful life is either:

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

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

[Specify judgements made]

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Accounting Policies

1.13 Employee benefits

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

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

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

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

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

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

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Accounting Policies

1.13 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.13 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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Accounting Policies

1.13 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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 deficit.

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

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Accounting Policies

1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 36.

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

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

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

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

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

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

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

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.14 Provisions and contingencies (continued)

Levies

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

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

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

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

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

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

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

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

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

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

1.16 Revenue from exchange transactions

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

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

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

Measurement

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

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.16 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

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

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

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

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

Interest, royalties and dividends

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

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

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

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

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

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

1.17 Revenue from non-exchange transactions

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

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

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

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.17 Revenue from non-exchange transactions (continued)

Government grants and subsidies

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.

Transfers

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

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

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

Fines

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

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

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

Gifts and donations, including goods in-kind

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

1.18 Investment income

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

1.19 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.

1.20 Comparative figures

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

1.21 Unauthorised expenditure

Unauthorised expenditure means:

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

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

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.22 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.

1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA 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 MFMA 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.

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

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

1.24 Budget information

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

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

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

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

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

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Accounting Policies

1.24 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.

1.25 Related parties

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

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

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

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.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
2. Inventories		
Land inventory	7 509 504	7 530 855
Stores, materials and fuels	617 307	947 188
	8 126 811	8 478 043
2.1 Amounts written down included in statement of financial performance		
Inventory write-down	60 294	712 737
3. Receivables from exchange transactions		
Employee debtors	80 573	283 829
Supplier with debit balance	5 383 078	-
Pensioner debtors	1 078 325	853 356
Rental debtors	69 291	-
Government subsidies	10 853 706	-
Debtors allowance for impairment	(807 294)	-
	16 657 679	1 137 185
Reconciliation of provision for impairment of trade and other receivables		
Provision for impairment	(807 294)	-
4. Receivables from non-exchange transactions		
Consumer debtors - Rates	8 169 303	10 192 389
Gross Balances		
Current (0 -30 days)	1 569 745	1 441 675
31 - 60 days	1 181 717	1 203 912
61 - 90 days	1 111 722	1 185 026
91 - 120 days	1 125 324	1 146 015
121+ days	67 630 175	58 868 734
	72 618 683	63 845 362
Reconciliation of allowance for impairment		
Balance at beginning of the year	(53 652 973)	(49 409 720)
Contributions to allowance	(10 796 407)	(4 243 253)
	(64 449 380)	(53 652 973)
Total receivables from non-exchange transactions	8 169 303	10 192 389

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
4. Receivables from non-exchange transactions (continued)		
Market Value of Properties		
Agricultural	3 654 200	3 654 200
Business	203 646 250	203 646 250
Business Empty stands	7 280 000	7 280 000
Business with house	7 174 000	7 174 000
Farms	2 818 784 523	2 819 714 523
Government	269 182 602	268 252 602
Industrial	186 740 300	188 350 300
Municipal	106 810 500	106 810 500
Non- Rateable	180 509 302	180 509 302
Process of transfer	527 400	527 400
Residential	702 145 100	702 231 100
Residential Empty stands	10 172 000	10 172 000
Residential Pensioners	34 154 000	34 154 000
Schools	88 713 270	88 713 270
5. Trade and other receivables from exchange transactions		
Gross balances		
Electricity	45 801 928	29 966 913
Water	30 670 565	23 246 483
Sewerage	52 080 583	40 665 940
Refuse	49 492 693	39 015 242
	178 045 769	132 894 578
Less: Allowance for impairment		
Consumer debtors impairment	(150 042 018)	(119 275 857)
Net balance		
Electricity	45 801 928	29 966 913
Water	30 670 565	23 246 483
Sewerage	52 080 583	40 665 940
Refuse	49 492 693	39 015 242
Consumer debtors allowance for impairment	(150 042 018)	(119 275 857)
	28 003 751	13 618 721
Electricity		
Current (0 -30 days)	9 414 950	2 193 332
31 - 60 days	2 322 579	2 623 263
61 - 90 days	2 213 924	1 366 082
91 - 120 days	1 684 500	1 673 320
121+ days	30 165 975	22 110 916
	45 801 928	29 966 913
Water		
Current (0 -30 days)	561 573	555 600
31 - 60 days	1 444 134	482 773
61 - 90 days	1 567 289	559 482
91 - 120 days	406 604	508 599
121+ days	26 690 965	21 140 029
	30 670 565	23 246 483

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
5. Trade and other receivables from exchange transactions (continued)		
Sewerage		
Current (0 -30 days)	1 106 370	1 013 721
31 - 60 days	1 064 158	980 356
61 - 90 days	1 031 755	954 699
91 - 120 days	1 044 737	947 108
121+ days	47 833 563	36 770 056
	52 080 583	40 665 940
Refuse		
Current (0 -30 days)	1 045 670	985 486
31 - 60 days	1 004 702	943 399
61 - 90 days	975 871	916 499
91 - 120 days	986 788	911 068
121+ days	45 479 662	35 258 790
	49 492 693	39 015 242
Impairment		
Amount	(150 042 018)	(119 275 857)
Reconciliation of allowance for impairment		
Balance at beginning of the year	(121 773 971)	(91 126 301)
Contributions to allowance	(28 268 047)	(28 149 556)
	(150 042 018)	(119 275 857)

The municipality does not have any receivables past due that have not been impaired.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	455	455
Bank balances	7 916 552	913 602
	7 917 007	914 057

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2020	30 June 2019	30 June 2018	30 June 2020	30 June 2019	30 June 2018
First National Bank - Current Account (52050012816)	684 110	792 126	88 243	684 110	792 126	88 243
First National Bank - Traffic Fines Account (62526417086)	776 808	100 740	5 150	776 808	100 740	5 150
First National Bank - Money Market Account (62263163752)	6 455 634	20 736	-	6 455 634	20 736	-
Total	7 916 552	913 602	93 393	7 916 552	913 602	93 393

7. Biological assets

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Wildlife	2 290 150	-	2 290 150	1 968 300	-	1 968 300

Reconciliation of biological assets - 2020

	Opening balance	Gains or losses arising from changes in fair value	Total
Wildlife	1 968 300	321 850	2 290 150

Reconciliation of biological assets - 2019

	Opening balance	Gains or losses arising from changes in fair value	Total
Wildlife	1 916 300	52 000	1 968 300

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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7. Biological assets (continued)

Non-financial information

Quantities of each biological asset

Oryx (Gemsbok)	19	63
Impala	59	72
Springbok	325	248
Red Hartebeest	58	55
Waterbuck	44	22
Black Wildebeest	157	104
Blesbuck	151	64
Ostrich	9	10
Zebra (Plains / Burchell's)	134	106
	956	744

Reconciliation of quantities of each biological asset

2020

Type of Wildlife	Opening balance	Births	Deaths	Closing Balance
Oryx (Gemsbok)	63		(44)	19
Impala	72		(13)	59
Springbok	248	77		325
Red Hartebeest	55	3		58
Waterbuck	22	22		44
Black Wildebeest	104	53		157
Blesbok	64	87		151
Ostrich	10		(1)	9
Zebra (Plains / Burchell's)	106	28		134
TOTAL	744	270	(58)	956

2019

Type of Wildlife	Opening balance	Births	Deaths	Closing Balance
Oryx (Gemsbok)	56	7		63
Impala	55	17		72
Greater Kudu	7		(7)	0
Springbok	293		(45)	248
Red Hartebeest	46	9		55
Waterbuck	22	21	(5)	22
Black Wildebeest	83			104
Blesbok	87		(23)	64
Ostrich	14		(4)	10
Zebra (Plains / Burchell's)	86	20		106
TOTAL	754	74	(84)	744

Fair value of the biological assets is determined at year end using market values.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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8. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	61 953 000	(2 315 403)	59 637 597	61 953 000	(2 151 013)	59 801 987

Reconciliation of investment property - 2020

	Opening balance	Depreciation	Total
Investment property	59 801 987	(164 390)	59 637 597

Reconciliation of investment property - 2019

	Opening balance	Depreciation	Total
Investment property	59 966 377	(164 390)	59 801 987

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.

Deemed Cost

Investment property consists of land and buildings and is carried at cost. No depreciation is calculated on the land as it is deemed to have an indefinite useful life.

Amounts recognised in surplus or deficit

Rental revenue from Investment property	153 953	204 878
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Tswaing Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand

9. 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	125 276 894	-	125 276 894	125 201 171	-	125 201 171
Buildings	101 166 427	(81 049 382)	20 117 045	101 166 427	(74 968 817)	26 197 610
Machinery and Equipment	78 373	(63 279)	15 094	99 101	(69 207)	29 894
Furniture and fixtures	2 356 439	(1 753 873)	602 566	2 636 633	(1 690 893)	945 740
Motor vehicles	11 365 718	(8 046 548)	3 319 170	10 674 210	(7 426 069)	3 248 141
Office equipment	86 334	(53 214)	33 120	98 815	(52 743)	46 072
Computer equipment	1 919 272	(973 257)	946 015	1 918 206	(904 892)	1 013 314
Other Assets	841 262	(301 681)	539 581	867 502	(272 290)	595 212
Infrastructure Community Assets	227 217 483	(136 154 943)	91 062 540	217 151 162	(120 602 405)	96 548 757
Roads Network Infrastructure	520 844 372	(267 268 279)	253 576 093	509 801 967	(245 274 862)	264 527 105
Storm Water Infrastructure	33 135 226	(20 238 908)	12 896 318	31 982 823	(19 361 287)	12 621 536
Water Supply Network Infrastructure	2 823 645	(1 440 059)	1 383 586	2 823 645	(1 298 877)	1 524 768
Electrical Network Infrastructure	127 320 336	(55 904 889)	71 415 447	127 320 336	(52 870 977)	74 449 359
Sanitation Network Infrastructure	835 580	(474 402)	361 178	835 580	(447 278)	388 302
Solid Waste Infrastructure	2 599 976	(2 102 098)	497 878	2 599 976	(2 015 432)	584 544
Work in progress	81 368 134	-	81 368 134	61 607 030	-	61 607 030
Total	1 239 235 471	(575 824 812)	663 410 659	1 196 784 584	(527 256 029)	669 528 555

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Transfers in	Transfers out	Depreciation	Impairment loss	Total
Land	125 201 171	-	-	75 723	-	-	-	125 276 894
Buildings	26 197 610	-	-	-	-	(4 256 657)	(1 823 908)	20 117 045
Machinery and equipment	29 894	-	(7 358)	-	-	(7 442)	-	15 094
Furniture and fixtures	945 740	-	(85 506)	-	-	(257 668)	-	602 566
Motor vehicles	3 248 141	1 530 000	(279 129)	-	-	(1 179 842)	-	3 319 170
Office equipment	46 072	-	(4 322)	-	-	(8 630)	-	33 120
Computer equipment	1 013 314	229 228	(61 827)	-	-	(234 700)	-	946 015
Other Assets	595 212	94 721	(74 015)	-	-	(76 337)	-	539 581
Infrastructure Community Assets	96 548 757	-	-	10 066 321	-	(7 300 460)	(8 252 078)	91 062 540
Roads Network Infrastructure	264 527 105	-	-	11 042 404	-	(21 993 416)	-	253 576 093
Storm Water Infrastructure	12 621 536	-	-	1 152 403	-	(877 621)	-	12 896 318
Water Supply Network Infrastructure	1 524 768	-	-	-	-	(141 182)	-	1 383 586
Electrical Network Infrastructure	74 449 359	-	-	-	-	(3 033 912)	-	71 415 447
Sanitation Network Infrastructure	388 302	-	-	-	-	(27 124)	-	361 178
Solid Waste Infrastructure	584 544	-	-	-	-	(86 666)	-	497 878
Work in progress	61 607 030	42 097 955	-	-	(22 336 851)	-	-	81 368 134
	669 528 555	43 951 904	(512 157)	22 336 851	(22 336 851)	(39 481 657)	(10 075 986)	663 410 659

Tswaing Local Municipality

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9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2019

	Opening balance	Additions	Disposals	Transfers in	Transfers out	Transferred to expenditure	Depreciation	Impairment loss	Total
Land	125 201 171	-	-	-	-	-	-	-	125 201 171
Buildings	30 496 952	-	-	-	-	-	(4 299 342)	-	26 197 610
Machinery and equipment	47 760	-	(5 118)	-	-	-	(12 669)	(79)	29 894
Furniture and fixtures	1 300 550	-	(54 545)	-	-	-	(300 007)	(258)	945 740
Motor vehicles	5 010 165	-	(55 973)	-	-	-	(1 706 051)	-	3 248 141
Office equipment	60 257	-	(2 008)	-	-	-	(12 177)	-	46 072
Computer equipment	1 156 401	136 250	(9 338)	-	-	-	(269 745)	(254)	1 013 314
Other Assets	390 637	278 276	(4 211)	-	-	-	(69 490)	-	595 212
Community Facilities	103 507 214	-	-	-	-	-	(6 958 457)	-	96 548 757
Roads Network Infrastructure	244 592 920	-	(2 109 699)	42 478 035	-	-	(20 434 151)	-	264 527 105
Storm Water Infrastructure	10 733 125	-	-	2 677 402	-	-	(788 991)	-	12 621 536
Water Supply Network Infrastructure	1 665 951	-	-	-	-	-	(141 183)	-	1 524 768
Electrical Network Infrastructure	69 584 855	-	-	7 893 239	-	-	(3 028 735)	-	74 449 359
Sanitation Network Infrastructure	415 425	-	-	-	-	-	(27 123)	-	388 302
Solid Waste Infrastructure	671 210	-	-	-	-	-	(86 666)	-	584 544
Work in progress	80 004 790	35 227 141	-	-	(53 048 676)	(576 225)	-	-	61 607 030
	674 839 383	35 641 667	(2 240 892)	53 048 676	(53 048 676)	(576 225)	(38 134 787)	(591)	669 528 555

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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9. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2020

	Roads Network Infrastructure	Electrical Network Infrastructure	Solid waste Infrastructure	Water supply network Infrastructure	Community Facilities	Total
Opening balance	33 372 091	10 932 984	994 075	-	16 307 880	61 607 030
Additions/capital expenditure	10 770 560	412 912	-	25 997 200	4 917 283	42 097 955
Transferred to completed items	(12 270 530)	-	-	-	(10 066 321)	(22 336 851)
	31 872 121	11 345 896	994 075	25 997 200	11 158 842	81 368 134

Reconciliation of Work-in-Progress 2019

	Roads Network Infrastructure	Electrical Network Infrastructure	Solid waste Infrastructure	Community Facilities	Total
Opening balance	60 252 486	17 004 027	994 075	1 754 202	80 004 790
Additions/capital expenditure	18 851 267	1 822 196	-	14 553 678	35 227 141
Transferred to statement of financial performance	(576 225)	-	-	-	(576 225)
Transferred to completed items	(45 155 437)	(7 893 239)	-	-	(53 048 676)
	33 372 091	10 932 984	994 075	16 307 880	61 607 030

Expenditure incurred to repair and maintain property, plant and equipment

Expenditure incurred to repair and maintain property, plant and equipment included in Statement of Financial Performance

Repairs and maintenance	814 729	894 155
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Transfers in/out relates to projects that were recognised as Work in progress that have reached completion and now form part of additions of infrastructure assets, community assets or land and buildings.

The Work in progress is thus transferred from the Work in progress account to the infrastructure assets, community assets or land and buildings accounts.

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.

Tswaing Local Municipality

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10. Heritage assets

	2020			2019		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	953 000	-	953 000	953 000	-	953 000

Reconciliation of heritage assets 2020

	Opening balance	Total
Historical monuments	953 000	953 000

Reconciliation of heritage assets 2019

	Opening balance	Total
Historical monuments	953 000	953 000

Condition of heritage assets

As at 30 June 2020, the historical monument has been assessed to be in a good condition.

Restrictions on heritage assets

There are no restrictions on the title and disposal of the heritage assets.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
11. Other financial assets		
Designated at fair value		
Listed shares	489 182	673 683
Non-current assets		
Designated at fair value	489 182	673 683
Financial assets at fair value		
Fair values of financial assets measured or disclosed at fair value		
Old Mutual Limited (OMU) The municipality holds 5862 shares in Old Mutual (OMU). These shares were valued at R 12,04 per share as at 30 June 2020 (R 21,20 as at 30 June 2019). The share price was obtained from sharenet.co.za	70 578	124 274
Old Mutual Limited (NED) The municipality holds 188 shares in Old Mutual (NED). These shares were valued at R 101,55 per share as at 30 June 2020 (R 253,20 as at 30 June 2019). The share price was obtained from sharenet.co.za	19 091	47 602
Old Mutual Limited (QLT) The municipality holds 188 shares in Old Mutual (QLT). These shares were valued at R 29,72 per share as at 30 June 2020 (R 25,09 as at 30 June 2019). The share price was obtained from sharenet.co.za	58 073	49 026
Sanlam Limited The municipality holds 5793 shares in Sanlam. These shares were valued at R 58,94 per share as at 30 June 2020 (R 78,19 as at 30 June 2019). The share price was obtained from sharenet.co.za	341 440	452 781
	489 182	673 683

Reconciliation of financial assets at fair value through surplus or deficit

Reconciliation of financial assets at fair value through surplus or deficit - 2020

	Opening balance	Gains or losses in surplus or deficit	Closing balance
Old Mutual (OMU)	124 274	(53 696)	70 578
Old Mutual (NED)	47 602	(28 511)	19 091
Old Mutual (QLT)	49 026	9 047	58 073
Sanlam	452 781	(111 341)	341 440
	673 683	(184 501)	489 182

Reconciliation of financial assets at fair value through surplus or deficit - 2019

	Opening balance	Gains or losses in surplus or deficit	Issues	Closing balance
Old Mutual (OMU)	162 905	(38 631)	-	124 274
Old Mutual (NED)	-	3 794	43 808	47 602
Old Mutual (QLT)	51 547	(2 521)	-	49 026
Sanlam	405 915	46 866	-	452 781
	620 367	9 508	43 808	673 683

Tswaing Local Municipality

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Figures in Rand	2020	2019
12. Payables from exchange transactions		
Trade payables	154 829 604	126 477 979
Payments received in advanced	893 796	2 343 836
Retentions	11 499 510	12 371 745
Other payables	50 358 466	40 867 701
Accrued leave pay	8 930 931	7 906 570
Accrued bonus	1 981 580	1 992 389
Petrol card	2 797	7 998
	228 496 684	191 968 218

13. Consumer deposits

Rates	1 242 112	1 212 720
Housing rental	11 198	10 757
	1 253 310	1 223 477

14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	3 881 275	-
Disaster Management Grant	85 885	-
LG Seta	165 600	-
	4 132 760	-

Movement during the year

Balance at the beginning of the year	-	1 494 828
Additions during the year	63 716 380	31 941 000
Income recognition during the year	(59 583 620)	(33 435 828)
	4 132 760	-

15. Provisions

Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	24 820 302	6 325 891	-	801 696	31 947 889
Employee long service benefit cost	6 213 903	485 873	(474 539)	291 100	6 516 337
	31 034 205	6 811 764	(474 539)	1 092 796	38 464 226

Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Change in discount factor	Total
Environmental rehabilitation	19 330 398	4 788 210	-	701 694	24 820 302
Employee long service benefit cost	5 055 000	377 336	(437 882)	1 219 449	6 213 903
	24 385 398	5 165 546	(437 882)	1 921 143	31 034 205

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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15. Provisions (continued)

Environmental rehabilitation provision

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

Financial assumptions used:

Adjustment of unit costs:

The unit cost of the various costs elements relating to rehabilitation and closure were adjusted using the Civil Engineering Indices and the Contract Price Adjustment Factors using the co-efficient's for Earthworks as provided in the General Conditions of Contract.

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 expenditure 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. Where the liability in this case is determined for a government entity (municipality), government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate.

The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used.

The discount rate was deduced from the average of the Zero-Coupon Yield Curve (Nominal Bond) over the entire durations applicable in the future. The annualised long term discount rate at 30 June 2020 was 11.28% p.a. The consumer price inflation of 6.61% p.a. was obtained from the differential between the averages of the Nominal Bond and the Real Bond (Zero Yield Curves).

Uncertainties regarding the calculation and estimation of the provision:

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

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

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

Variables that relate to availability of information:

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

Variables that relate to management practices:

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

Tswaing Local Municipality

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Notes to the Annual Financial Statements

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15. Provisions (continued)

Long service provision

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

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

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

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

Discount rate

GRAP 25 defines the determination of the Discount rate assumption to be used as the rate that can "be determined by reference to market yields at the balance sheet* date on high quality corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the balance sheet* date) on government bonds should be used. The currency and term of the corporate bonds or government bonds should be consistent with the currency and estimated term of the post-employment benefit obligations.

Key assumptions

Assumption	2020	2019
Discount rate	8.20%	8.18%
CPI	3.16%	4.43%
Salary increase rate	4.16%	5.43%
Net discount rate	3.88%	2.61%

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

Salary Increase

The valuation bases assume that the salary inflation rate (which manifests itself as the annual increase in employees' salaries which determine the bonuses payable) will be 3.88% less than the corresponding discount rate, in the long term.

The effect of a one percent increase and decrease in the salary inflation rates is as follows

	1% decrease	Valuation basis	1% increase
Employer's accrued liability	6 168 821	6 516 337	6 897 319
Current service cost	448 333	478 755	512 573
Interest cost	460 957	489 454	520 694

As per the table above, a 1% increase in the salary increase rate results in a 5.85% increase in the accrued liability whilst a 1% decrease in the salary increase rate will result in a 5.33% decrease in the accrued liability.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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16. Revenue

Service charges	88 935 400	64 195 690
Rental of facilities and equipment	153 953	204 878
Licences and permits	2 289 516	3 022 661
Other income	3 332 922	2 536 798
Interest received - investment	280 933	80 325
Dividends received	24 845	29 975
Property rates	19 331 233	18 959 089
Government grants & subsidies	177 942 622	138 527 300
Fines	146 643	233 782
Other income	4 372	9 479
	292 442 439	227 799 977

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

Service charges	88 935 400	64 195 690
Rental of facilities and equipment	153 953	204 878
Licences and permits	2 289 516	3 022 661
Other income	3 332 922	2 536 798
Interest received - investment	280 933	80 325
Dividends received	24 845	29 975
	95 017 569	70 070 327

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

Taxation revenue

Property rates	19 331 233	18 959 089
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Transfer revenue

Government grants & subsidies	177 942 622	138 527 300
Fines	146 643	233 782
Other income	4 372	9 479
	197 424 870	157 729 650

17. Service charges

Sale of electricity	57 906 021	37 605 133
Sale of water	8 280 189	5 326 122
Sewerage and sanitation charges	11 676 648	10 737 516
Refuse removal	11 072 542	10 526 919
	88 935 400	64 195 690

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
18. Other income		
Other income	3 337 294	2 546 277
The amount included in other revenue arising from exchanges of goods or services are as follows:		
Administrative handling fees	-	8 154
Cemetery & Burial Services	178 319	203 882
Incidental surplus	21 382	110 332
Insurance income	3 045 723	1 263 459
Photocopies and faxes	370	220
Plan and Development	42 643	35 856
Sale of property	28 000	895 357
Valuation services	16 485	19 538
	3 332 922	2 536 798
The amount included in other revenue arising from non-exchange transactions is as follows:		
Transfer revenue		
Amounts written off by creditors	3 423	9 479
Discount received for early payment	949	-
	4 372	9 479
19. Investment revenue		
Dividend revenue		
Other financial asset	24 845	29 975
Interest revenue		
Bank	280 933	80 325
	305 778	110 300
20. Property rates		
Rates		
Residential	2 808 878	2 358 254
Commercial	2 058 792	2 040 630
State	8 374 860	8 328 700
Agricultural	4 968 557	4 881 744
Industrial	1 120 146	1 349 761
	19 331 233	18 959 089

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
21. Government grants and subsidies		
Operating grants		
Equitable share	115 359 000	102 430 514
Financial management grant	2 880 000	2 415 000
EPWP	1 232 000	1 632 000
Ngaka Modiri Molema District Municipality	3 000 000	2 660 958
Disaster management grant	182 115	-
Library grant	-	2 688 828
	122 653 115	111 827 300
Capital grants		
Municipal infrastructure grant (MIG)	25 392 725	26 700 000
Water Relief Grant	29 896 782	-
	55 289 507	26 700 000
	177 942 622	138 527 300
Municipal infrastructure grant		
Current-year receipts	29 274 000	26 700 000
Conditions met - transferred to revenue	(19 724 957)	(26 700 000)
Conditions met - transferred to revenue: Prior Year	(5 667 768)	-
	3 881 275	-
Conditions still to be met - remain liabilities (see note 14).		
The Municipal Infrastructure Grant is intended to provide specific capital finance for basic municipal infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities		
Financial management grant		
Current-year receipts	2 880 000	2 415 000
Conditions met - transferred to revenue	(2 880 000)	(2 415 000)
	-	-
The Financial Management Grant is intended for the improvement of the financial management systems (mainly budget and treasury department) within the municipality.		
Library grant		
Balance unspent at beginning of year	-	1 494 828
Current-year receipts	-	1 194 000
Conditions met - transferred to revenue	-	(2 688 828)
	-	-
The Library Grant is used to provide the municipality with finance for operation and administration of the libraries in the communities..		
Disaster Management Grant		
Current-year receipts	268 000	-
Conditions met - transferred to revenue	(182 115)	-
	85 885	-
Conditions still to be met - remain liabilities (see note 14).		

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
21. Government grants and subsidies (continued)		
The Disaster Management Grant is intended to assist with the current COVID 19 pandemic.		
LG Seta		
Current-year receipts	165 600	-
Conditions still to be met - remain liabilities (see note 14).		
The LG Seta Grant is intended for learnerships within the Municipality..		
EPWP		
Current-year receipts	1 232 000	1 632 000
Conditions met - transferred to revenue	(1 232 000)	(1 632 000)
	-	-
The EPWP Grant is intended to incentivise municipalities to increase job creation efforts in infrastructure, environment and culture programmes through the use of labour-intensive methods and the expansion of job creation in line with the Expanded Public Works Programme (EPWP) guidelines		
Water Relief Grant		
Current-year receipts	29 896 782	-
Conditions met - transferred to revenue	(29 896 782)	-
	-	-

The Water Relief Grant is intended to improve the provision of water to communities within the Municipality .

Tswaing Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
22. Employee related costs		
Basic	57 012 476	52 420 767
Bonus	4 599 432	4 062 039
Medical aid - company contributions	4 588 069	4 298 053
UIF	403 397	405 772
SDL	596 324	98 884
Post employment benefits	2 066 608	1 966 499
Group life Insurance	527 953	449 092
Travel, motor car and other allowances	3 538 640	4 195 090
Overtime payments	3 244 514	3 015 612
Long-service awards	485 873	377 336
Acting allowances	1 107 028	1 272 993
Housing benefits and allowances	587 935	592 011
Leave expense	1 363 495	1 212 225
Telephone allowance	359 200	359 366
Stand-by allowance	735 257	776 887
Bargaining Council	27 048	25 127
Pension	10 955 124	9 848 213
	92 198 373	85 375 966

Remuneration of Municipal Manager

Annual Remuneration	552 456	600 641
Housing Allowance	154 608	129 800
Car Allowance	257 694	195 548
Phone Allowance	14 400	14 400
Remote Allowance	41 112	36 418
Bonus	50 338	59 033
	1 070 608	1 035 840

Remuneration of Chief Finance Officer

Annual Remuneration	481 871	438 499
Housing Allowance	98 000	104 000
Car Allowance	189 743	195 000
Phone Allowance	13 200	13 000
Remote Allowance	33 755	34 884
Bonus	68 500	37 242
	883 869	822 625

Remuneration of Acting Technical Services Director

Annual Remuneration	322 016	474 364
Acting allowance	50 028	8 629
Car Allowance	123 548	159 632
Phone Allowance	9 900	13 100
Bonus	35 780	2 198
Contributions to UIF, Medical and Pension Funds	81 907	96 941
	623 179	754 864

Acting Technical Services Director Mokgetho G.S was acting until 31 March 2020, Mr Mojaki Tinyane subsequently took over as Acting Technical Services Director from 01 April 2020 to 30 June 2020. He was seconded from the Department of COGTA. The department of COGTA was paying his salaries until the 30th of June 2020.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

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Figures in Rand	2020	2019
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22. Employee related costs (continued)

Remuneration of Corporate Services Director

Annual Remuneration	487 548	472 908
Housing Allowance	99 544	139 594
Car Allowance	184 931	139 594
Phone Allowance	12 000	12 000
Remote Allowance	51 718	47 890
Bonus	63 017	32 318
	898 758	844 304

Remuneration of Acting Community Services Director

Annual Remuneration	250 457	493 272
Acting allowance	40 764	-
Car Allowance	63 189	108 324
Phone Allowance	7 700	13 200
Bonus	35 780	33 596
Contributions to UIF, Medical and Pension Funds	56 141	143 927
	454 031	792 319

The Acting Community services director Moeti S.B was acting in this position until 31 January 2020, no subsequent appointments have been made in regard to the position.

23. Remuneration of councillors

Executive Mayor	849 838	833 934
Speaker	661 769	654 268
Chief Whip	590 586	536 925
Mayoral committee members	2 431 123	2 040 155
Councillors	6 569 167	8 429 748
	11 102 483	12 495 030

In-kind benefits

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

Councillors arrear consumer accounts are disclosed in the related party note, refer to note 38.

24. Depreciation and amortisation

Property, plant and equipment	39 481 657	38 134 786
Investment property	164 390	164 390
	39 646 047	38 299 176

25. Impairment of assets

Impairments

Property, plant and equipment	10 075 986	591
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Tswaing Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
26. Finance costs		
Interest on fair value of employment benefits awards and & environmental Bank	5 747 590	4 638 734
Interest on late payments	-	530 731
	9 292 910	7 510 357
	15 040 500	12 679 822
27. Debt impairment		
Receivables from exchange	807 294	-
Trade Receivables from non-exchange	10 796 408	4 243 252
Trade Receivables from exchange	27 020 140	22 031 252
	38 623 842	26 274 504
28. Bulk purchases		
Electricity - Eskom	39 645 127	35 364 559
Water	459 354	569 700
	40 104 481	35 934 259
Electricity losses		
29. Contracted services		
Outsourced Services		
Security Services	3 390 713	2 735 697
Consultants and Professional Services		
Business and Advisory	2 455 800	2 666 087
Contractors		
Prepaid Electricity Vendors	2 303 305	1 667 000
	8 149 818	7 068 784

Tswaing Local Municipality

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Notes to the Annual Financial Statements

Figures in Rand	2020	2019
30. General expenses		
Advertising	186 002	170 508
Auditors remuneration	2 274 229	2 497 399
Bank charges	393 945	555 637
Commission paid	1 277 266	1 600 855
Computer expenses	105 567	112 373
Consulting and professional fees	17 230 672	17 607 830
Consumables	1 514 216	779 504
Hire	-	9 043
Insurance	1 653 424	1 070 316
Community development and training	4 473 855	3 217 221
Motor vehicle expenses	-	7 642
Fuel and oil	2 451 486	2 288 990
Environmental rehabilitation provision expense	6 325 891	4 788 210
Printing and stationery	703 366	647 096
Protective clothing	316 576	204 169
Repairs and maintenance	3 490 958	1 591 391
Sitting Allowance	160 000	65 000
Subscriptions and membership fees	1 025 579	1 064 715
Telephone and fax	2 563 802	1 783 567
Transport and freight	213 147	195 347
Training	606 716	370 902
Travel - local	666 843	902 375
Refuse	23 739	-
Assets expensed	-	576 225
Catering Services	68 169	109 116
Electricity purchase: small amounts	6 472 415	5 677 800
	54 197 863	47 893 231
31. Fair value adjustments		
Other financial assets		
• Other financial assets (Held for trading)	(184 501)	53 316
32. Auditors' remuneration		
Fees	2 274 229	2 497 399
33. Operating deficit		
Operating deficit for the year is stated after accounting for the following:		
Operating lease charges		
Equipment		
• Contractual amounts	664 827	824 551
Loss on sale of property, plant and equipment	512 157	2 240 892
Impairment on property, plant and equipment	10 075 986	591
Gains on biological assets	(321 850)	(52 000)
Depreciation on property, plant and equipment	39 481 657	38 134 786
Depreciation on investment property	164 390	164 390
Employee costs	92 296 025	85 375 966
Councillors remuneration	10 765 255	12 495 030

Tswaing Local Municipality

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Figures in Rand	2020	2019
34. Cash generated from operations		
Deficit	(11 364 311)	(49 952 318)
Adjustments for:		
Depreciation and amortisation	39 646 047	38 299 176
Gain on biological assets	(321 850)	(52 000)
Actuarial gain/ loss	(11 161 332)	3 335 476
Loss on disposal	512 157	2 240 892
Asset expensed	-	576 225
Environmental Rehabilitation	6 325 891	4 788 210
Fair value adjustments	184 501	(53 316)
Finance Costs	5 747 590	4 638 733
Long service provision	485 872	377 335
Post employment benefits	2 066 608	1 966 499
Impairment loss	10 075 986	591
Debt impairment	38 623 842	26 274 504
Bad debts written off	555 148	-
Movements in retirement benefit assets and liabilities	(759 487)	(757 040)
Movements in provisions	(474 540)	(437 883)
Inventory losses	60 294	712 737
Other Income from non - exchange	(4 372)	(9 479)
Changes in working capital:		
Inventories	290 938	(682 103)
Receivables from exchange transactions	(16 882 936)	(484 960)
Receivables non exchange	(10 121 646)	(9 422 514)
Trade receivables from exchange transactions	(43 907 619)	(23 710 670)
Payables from exchange transactions	36 532 838	40 186 409
VAT	682 640	84 633
Unspent conditional grants and receipts	4 132 760	(1 494 828)
Consumer deposits	29 833	37 568
	50 954 852	36 461 877

Tswaing Local Municipality

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Figures in Rand	2020	2019
35. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	26 581 434	12 801 665
Not yet contracted for and authorised by accounting officers		
• Property, plant and equipment	3 266 754	19 766 754
Total capital commitments		
Already contracted for but not provided for	26 581 434	12 801 665
Not yet contracted for and authorised by accounting officer	3 266 754	19 766 754
	29 848 188	32 568 419
Authorised operational expenditure		
Already contracted for but not provided for		
• Financial Statements Preparation	4 838 855	3 286 376
• Asset Management	3 220 000	2 126 069
• Telephone Management System	-	4 809 842
• Financial System Management	1 157 489	2 342 357
	9 216 344	12 564 644
Total operational commitments		
Already contracted for but not provided for	9 216 344	12 564 644
Total commitments		
Total commitments		
Authorised capital expenditure	29 848 188	32 568 419
Authorised operational expenditure	9 216 344	12 564 644
	39 064 532	45 133 063

Tswaing Local Municipality

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36. Contingencies

Court Proceedings:

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

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

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

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

Litigation and claims

B Smith vs the municipality is reviewing the award	500 000	500 000
Molene vs the municipality is reviewing the award	400 000	400 000
Mr Ramphele is suing the municipality over a reversed senior manager appointment	-	4 450 840
PanaPoint is alleging that the municipality is indebted to them for services rendered (Honey Sucking)	2 829 224	2 829 224
MRL Incorporated - Company is suing the municipality for a cancelled contract in the 17/18 financial year	1 540 000	-
Glover J - suing for damages	385 053	-
Municipal Rates (Pty) Ltd - Company is claiming the municipality for collected rates not using MPRA	3 721 673	-
	9 375 950	8 180 064

Tswaing Local Municipality

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37. Related parties

Relationships

Members of key management

Administrator

Accounting Officer

Chief Finance Officer

Corporate Services Director

Acting Technica Director

Mayor

Speaker

Chief Whip

Councillors

Name

Mr S. Ramagaga

Mr M.I. Moruti

Mr R.E. Mogoje

Mrs V.K. Ndongeni

Mr M. Tinyane

Hon Cllr L. Malwane

Hon Cllr U.P. Lobelo

Hon Cllr T.A. Morei

Cllr L. Bome

Cllr S.V. Moremedi

Cllr M.M. Moreo

Cllr K.E. Blou

Cllr S.T. Lerumo

Cllr A.T. Modise

Cllr B. Phutiyagae

Cllr N.J. Molehabangwe

Cllr T.E. Chabanku

Cllr T.S. Tsholo

Cllr M.E. Booi

Cllr M.S. Letlakane

Cllr A.T. Mabovu

Cllr P.M. Mokoto

Cllr T.D. Mthimkulu

Cllr O.J. Makalela

Cllr E.S. Sedumoeng

Cllr S. Viljoen

Cllr E.M. Thobengani

Cllr T.P. Miga

Cllr J.K. Mangwejane

Cllr L.Y. Taljaard

Cllr G.E. Kgasu

Cllr K.C. Seduko

Cllr G.B. Madebe

Cllr J.H. Botha

Kgosi J.E.F. Moletse

Kgosi C. Moshoelette

The above key management's salaries are disclosed in note 22 and 23

Related party balances

Receivables - Owing by councillors

AT Mabovu	21 569	17 170
NJ Molehabangwe	18 677	15 277
ME Booi	20 305	16 095
LY Taljaard	29 432	25 821
S Viljoen	31 692	22 761
T Morei	16 227	12 826

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38. Risk management

Financial risk management

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

Due to the largely non-trading nature of activities and the way in which they are financed, Municipalities are not exposed to the degree of financial risk faced by business entities. Financial Instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IAS's mainly apply.

Generally, Financial Assets and Liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the Municipality in undertaking its activities.

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

The 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. Risk management is carried out by the budget and treasury department under policies approved by Council. Municipality budget and treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. Council provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

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.

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The Municipality managing of liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses. Liquidity risk is managed by ensuring that all assets are re-invested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

The tables detail the municipality's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the municipality can be required to pay. The table includes both interest and principal cash flows.

As at 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	213 927 537	0	0	0
As at 30 June 2019	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Payables from exchange transactions	194 705 659	0	0	0

Tswaing Local Municipality

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38. Risk management (continued)

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade receivables. 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. Possible risk will arise from customers not being able to pay their outstanding debt. 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. A consideration of individual customer circumstances must be made as services do still need to be provided to customers, while ensuring payments are made.

The municipality does not hold any collateral to mitigate against credit risk..

The municipality establishes an allowance for impairment that represents its estimate of anticipated losses in respect of trade and other receivables.

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

Financial instrument	2020	2019
Receivables from exchange transactions	16 657 679	1 137 185
Receivables from non-exchange transactions	8 169 303	10 192 389
Trade and other receivables from exchange	28 003 751	13 618 721
VAT Receivable	9 762 670	6 594 537
Bank balances and cash	7 919 610	914 057

Market risk

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

The municipality is exposed to market risk in relation to the listed shares it holds. These shares are valued at their market price at each year end.

The maximum exposure to cash flow and fair value risk, price risk and foreign currency risk. There has been no change to the Municipality's exposure to market risk on the manner in which manages.

Financial instrument	2020	2019
Investments - Listed shares designated at fair value	489 182	673 683

Tswaing Local Municipality

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38. Risk management (continued)

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.

	2020	2019
Interest on late payments	9 292 910	7 510 357
Bank overdraft		530 731

Price risk

The municipality is exposed to equity securities price risk because of investments held by the municipality and classified on the statement of financial position either as available for sale or at fair value through surplus or deficit. The municipality is not exposed to commodity price risk.

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

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

39. Material uncertainty relating going concern

We draw attention to the fact that at 30 June 2020, the municipality had a deficit of R 11 364 311 and that the municipality's total liabilities exceed its assets by R 156 092 008.

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.

To ensure this the Municipality has recently appointed a service provider to assist with among other things revenue enhancement, revenue protection, credit control and debt collection. The implementation plan is still at a planning phase and data collection.

In addition, the Municipality will be advertising on e-tender for the acquisition of a service provider to assist with the collection of government debt.

Furthermore, as part of the ongoing business improvement drive, the Municipality recently upgraded its financial system from Venus to Solar. This should assist in ensuring improved planning, budgeting and stricter budgeting control as well as financial management control.

Measures to reduce costs will also be implemented particularly around consulting and professional fees.

40. Fruitless and wasteful expenditure

Opening balance as previously reported	48 354 195	36 098 762
Correction of prior period error	-	559 860
Opening balance as restated	48 354 195	36 658 622
Add: Expenditure identified - current	14 491 278	11 198 321
Add: Expenditure identified - prior period error	-	497 252
Less: Amount written off - current	(3 423)	-
Closing balance	62 842 050	48 354 195

Amounts written off relate to interest that was written off by the supplier.

Tswaing Local Municipality

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Figures in Rand	2020	2019
41. Irregular expenditure		
Opening balance	310 745 543	245 558 974
Correction of prior period error	-	(15 908 188)
Opening balance as restated	310 745 543	229 650 786
Add: Irregular Expenditure - current	100 675 152	65 721 063
Add: Irregular Expenditure - prior period	-	15 373 694
Closing balance	411 420 695	310 745 543

42. Material losses

The municipality incurred losses in distribution of electricity amounting to 2020: R 14 942 196 (2019: R 12 790 355). The distribution losses incurred for the distribution of water could not be ascertained as the municipality does not buy water as they use natural water from boreholes. Therefore it is impractical to measure natural water source from the reservoirs.

43. Budget differences

Material differences between budget and actual amounts

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

Explanations :

N1 - The budgeted amount is lower than the actual amount mainly due to electricity revenue. In the current year there was an exercise to replace meters of the commercial customers (businesses) which has yielded higher revenue than expected.

N2 - Due to the COVID - 19 pandemic and the related restrictions on social gatherings and the subsequent lockdown that began at the end of March, renting of the municipality's hall decreased, which has resulted in the the budgeted amount being higher than the actual amounts.

N3 - The budgeted amount is lower than the actual amount as the Delareyville station re-opened in the current financial period (November 2019).The potential revenues from this station were not considered during the budgeting process.

N4 - The budgeted amount is lower than actual as a result of insurance payouts that were received that were not budgeted for.

N5 - The budgeted amount is lower than the actual amount as grant money that was received was immediately transferred into the Municipality's call account which generates higher interest than the main account. In the prior year, less transfers to the call account were done

N6 - Additional grants were received from the Department of Cooperative Governance & Traditional Affairs which resulted in the budgeted amounts being lower than the actual amounts.

N7 - The budgeted amount is lower than the actual amount as a result of contract workers that were appointed in the current year that were not budgeted for. Additionally there is no budget done for the provisions for the post employment medical aid benefit and the long service award provision.

N8 - The budgeted amount is lower than the actual amount because during the budgeting process, an intentional decrease needed to be provided for expenditure as the budgeted expenditure was too high.

N9 - There was no budget provided for this expenditure as there was no expectation to have significant impairment loss for the financial year.

10 - The budgeted amount is lower than the actual amount as there was an expectation for the finance charges to decrease as the Municipality had entered into a payment arrangement with Eskom which would have resulted in Eskom not charging interest on the outstanding balance, this arrangement was not honoured, thus the finance charges were not lowered.

Tswaing Local Municipality

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43. Budget differences (continued)

N11 - There is no budget provided because during the budgeting process, an intentional decrease needed to be provided for expenditure as the budgeted expenditure was too high

N12 - The budgeted amount is lower than the actual amount because during the budgeting process, an intentional decrease needed to be provided for expenditure as the budgeted expenditure was too high.

N13 - There was no budget for this expenditure as there was no expectation to write-off debt in the current year financial year.

N14 - There was no budget for this expenditure as there was no expectation for this expenditure to be recurring in the current financial period.

N15 - There was no budget for this expenditure as there was no expectation for the expenditure to occur.

N16 - During the budgeting process, an intentional decrease needed to be provided for expenditure as the budgeted expenditure was too high.

N17 - No budget was provided as there was no expectation for the municipality to make any disposal of assets. This was mostly impacted by the derecognition of road infrastructure in order to capitalise new road infrastructure.

N18 - No budget was provided as there was no expectation for fair value loss to be incurred in the 2020 financial period.

N19 - No budget can be provided for this transaction line item .

N20 - No budget can be provided for this transaction line item.

N21 - No budget was provided as there was no expectation to have any write-offs on inventory. Poor management of the inventory department within SCM resulted in the write-offs.

Tswaing Local Municipality

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44.

Post retirement medical aid plan

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

The most recent actuarial valuations of plan assets and the present value of the unfunded defined benefit obligation were carried out as at 30 June 2020.

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

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

Discount rate	12.92%	10.50%
Consumer Price Inflation	7.20%	6.36%
Health Care Cost Inflation	8.70%	7.87%
Net Effective Discount Rate	3.88%	2.45%
Average retirement age	63	63
Mortality during employment	SA 85-90	SA 85-90.

SENSITIVITY ANALYSIS

Medical Inflation Rate

The effect of a 1% decrease or increase in the medical inflation rate is as follows:

	1% decrease	30 June 2020 Valuation Basis	1% Increase
Employer's accrued liability	32 541 789	37 657 110	43 917 152
Service Cost	1 634 874	1 957 027	2 360 011
Interest Cost	4 535 410	5 257 423	6 141 071

As per the table above, a 1% increase in the medical inflation rate results in a 16.62% increase in the accrued liability whilst a 1% decrease in the medical inflation rate will result in a 13.58% decrease in the accrued liability.

Mortality

	30 June 2020 Valuationbasis SA85-90 R	PA(90) -3 R
Employer's accrued liability	37 657 110	38 443 600
Service cost	1 957 027	2 010 153
Interest cost	5 257 423	5 368 475

PA (90) -3 (with a three year age adjustment) means that each beneficiary was assigned a mortality rate of an individual three years younger than that beneficiary. The resulting mortality implies that the individual lives longer than expected in the valuation basis.

The above table highlights the effects of a one year adjustment to the mortality assumption as at 30 June 2020. The adjustment would result in a 2.09% increase in the liability.

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Figures in Rand	2020	2019
44. (continued)		
The amounts recognised in the statement of financial position are as follows:		
Opening balance	(42 856 526)	(35 594 000)
Current Service Cost	(2 066 608)	(1 966 499)
Current interest cost	(4 455 000)	(3 500 108)
Actuarial (gain)/loss	10 961 538	(2 552 959)
Utilised during the current year	759 486	757 040
	(37 657 110)	(42 856 526)
Non-current liabilities	(36 810 635)	(42 000 617)
Current liabilities	(846 475)	(855 909)
	(37 657 110)	(42 856 526)
Net expense recognised in the statement of financial performance		
Current service cost	2 066 608	1 966 499
Interest cost	4 455 000	3 500 108
Actuarial (gains) losses	(10 961 538)	2 552 959
	(4 439 930)	8 019 566
45. VAT receivable		
VAT	9 762 670	6 594 537
46. Unauthorised expenditure		
Opening balance as previously reported	398 582 004	296 659 056
Opening balance as restated	398 582 004	296 659 056
Add: Expenditure identified - current	104 920 628	101 922 948
Closing balance	503 502 632	398 582 004
47. Fines and penalties		
Breach of Contracts	2 500 000	2 601 196
Other	1 540 307	1 659 089
	4 040 307	4 260 285

Breach of contract: 2020 - Mr Ramphela was awarded an amount of R 2 500 000 in relation to an employment contract that was not honoured by the Municipality.

2019 - Kuyalunga Traffic Solutions was awarded R 1 643 500,87 and New Boss Construction (Pty) Ltd was awarded R 957 695,16 in relation to contracts that were not honoured.

Other fines & penalties mostly relate to penalties from SARS as a result of late submission/payment of EMP201's and VAT201's.

Tswaing Local Municipality

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Figures in Rand	2020	2019
48. Loss due to undeposited receipts		
Municipal Losses	84 014	343 999
Department Losses	49 291	118 307
	133 305	462 306

Loss due to undeposited receipts relates to amounts not deposited to the Municipality's bank account and the bank account of the Department of Transport, Admin and Licencing in relation to revenue from the traffic department which the Municipality administered on behalf of the department and there is a relationship of distributing the revenue between the Municipality and Department 20/80.

49. Principle - agent arrangement

Commission expense	1 835 327	1 600 855
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The Municipality is in a principal - agent arrangement with CigiCell (Pty) Ltd, where the Municipality is the principal and CigiCell is the agent.

Under the arrangement, there are no resources of the Municipality under the custodianship of CigiCell.

There would be no resource or cost implications for the Municipality if the principal - agent arrangement is cancelled.

50. Prior period errors

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

During the current period adjustments were processed for the previous financial periods. The overall difference for the 2019 financial year below reflects the adjustments.

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

1. Land inventory and accumulated surplus were overstated by R 21 for the 18/19 financial year and R 2 for the 17/18 financial year as a result of sales of land inventory that were not accounted for in the general ledger.
2. Land inventory and accumulated surplus were understated by R 2 165 as a result of land inventory belonging to the Municipality that was previously not included in the fixed asset register.
3. Receivables from exchange transactions were overstated by an accumulated amount of R 2 349 401 as a result of undeposited receipts of R 2 933 567 being incorrectly classified as a receivable and subsequently being impaired by R 644 165. This error occurred over the 18/19 and 17/18 financial periods. As a result of this error provision for debt impairment was overstated by R 343 999, loss due to undeposited receipts was understated by R 462 307 and accumulated surplus was overstated by R 2 231 094 in the 18/19 financial year.
4. Receivables from non-exchange were understated, VAT was overstated, Trade and other receivables from exchange were understated and bad debts provision was overstated by R 5 365 485, R 692 834, R 2 498 114 and R 7 170 764 respectively as a result of debt impairment not being entity specific in the previous year.
5. VAT and Accumulated surplus were overstated by R 30 004 395 as result of an adjusting entry that was erroneously processed into the general ledger in the 17/18 financial year of R 15 226 421 and VAT of R 14 777 974 that was not accounting for in the general ledger when the bad debt write off was done in the 17/18 financial year.
6. Property, plant and equipment (movable assets), accumulated surplus and depreciation were overstated by R 267 563,48, R 383 680,09 and R 116 116, 61 respectively as a result of assets that were duplicated in the fixed assets register during the asset count in the 2018 financial year asset count.
7. Property, plant and equipment (movable assets) was overstated and loss on disposal of assets was understated, both by R 579 as a result of assets that were duplicated on the fixed asset register during the asset count in the 2019 financial year.

Tswaing Local Municipality

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Figures in Rand	2020	2019
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50. Prior period errors (continued)

8. Property, plant and equipment (Work in Progress) and accumulated surplus were both overstated by R 63 196 in the 2018 financial year end.

9. Property, plant and equipment (Work in progress) was overstated and general expenses (Assets expensed) were understated both by R 54 as a result of expenditure from the Vrischgewaagte Internal Roads project that was not expensed in the 2019 financial year end.

10. Property, plant and equipment (infrastructure assets) was understated by a cumulative amount of R 14 535 734 as a result of assets that identified in the fixed asset register to have been fully depreciated by the end of the 18/19 financial period. 10 assets were identified as having a zero carrying amount at the end of the 18/19 financial period and no residual value, the effect of this was an overstatement on accumulated depreciation of R 12 426, an understatement of depreciation of R 9 940 and an understatement of accumulated surplus of R 22 366. 17 assets were identified as having a carrying amount that was equal to its residual value at the end of the 18/19 financial year, the effect of this an overstatement of the depreciation and accumulated depreciation of R 615 909. 574 assets were identified to have been fully depreciated prior to the 18/19 financial year, the effect of this was an understatement of depreciation, accumulated depreciation and accumulated surplus of R 6 524 378, R 13 907 399 and R 20 431 778 respectively.

11. Roads infrastructure was understated by R 10 964 402 as a result of roads belonging to the Municipality that had not previously been recognised in the general ledger. These roads were erroneously recognised in the general ledger of the District Municipality, Ngaka Modiri Molema District Municipality. This error resulted in the cost and the accumulated depreciated of the roads infrastructure being understated by R 23 349 784 and R 12 385 382 respectively. Depreciation and accumulated surplus were also understated by R 6 192 691 and R 17 157 093 respectively.

12. Property, plant and equipment (infrastructure assets) was understated and depreciation was overstated by R 1 075 191 as a result of incorrect residual values that were used due to incorrect descriptors in the fixed asset registered.

13. Property, plant and equipment (Land) and accumulated surplus were understated by R 1 813 341,47 as a result of land that was previously not included in the fixed asset register of the municipality

14. Other payables were understated, accumulated surplus was overstated and finance costs were understated by R 895 915,63, R 559 859,80 and R 336 055,83 respectively as a result of interest incurred on the SARS PAYE account that was not accounted for in the 2017, 2018 and 2019 financial year ends.

15. Trade payables and fines & penalties were both understated by R 161 196,28 as a result of a fine that was not accounted for in the 2019 financial period.

16. Trade payables were understated, VAT was overstated, repairs & maintenance and general expenses were both overstated by R 247 339,43, R 3 855,38, R 236 794,48 and R 6 749,57 respectively as a result of invoices from different suppliers that were accounted for in the 2019 financial year end.

17. Trade payables were overstated, VAT was understated and general expenses were overstated by R 189 050, R 24 658,70 and R 164 391,30 respectively as a result of an invoice that was accrued twice in the 2019 financial year end.

18. Trade payables were overstated and accumulated surplus was understated by R 2 737 441 as a result of the prepaid revenue received from the agent being incorrectly accounted in the general ledger in the prior years.

19. Remuneration of councillors was overstated and general expenses were understated both by R 65 000 as a result of the incorrect classification of the sitting allowance paid to the local chiefs of the community for attending council meetings as councillor's remuneration instead of sitting allowance.

20. Contracted services were overstated and general expenses were understated both by R 370 902,14 as a result of the incorrect classification of expenditure of the training of municipal officials as contracted services instead of general expenditure.

21. Related party transactions were overstated by R 137 097 958 as a result of Grant and subsidies received from State Organs of R 137 032 958 that were disclosed in the 18/19 financial statements. As per GRAP 20 paragraph 32 the Municipality is exempt from disclosing the grants received as related party transactions as the grants are received in the ordinary course of transacting with the various Organs of State. There was also a correction of expenditure of R 65 000 that was previously incorrectly classified as remuneration councillors, thus was also incorrectly classified as a related party transaction in the 18/19 financial statements.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
50. Prior period errors (continued)		
22. Cash receipts from ratepayers, government and others, Interest paid and Cash paid to suppliers and employees were adjusted by an outflow of R 897 845, outflow of R 7 510 357 and an inflow of R 8 408 202 respectively as a result of adjustments made to the 18/19 balances. There were corrections made to the methodology used in calculating the cashflow statement to more fairly present the cashflow movements for the year.		
The correction of the error(s) results in adjustments as follows:		
Statement of financial position		
Inventories	-	2 142
Receivables from exchange transactions	-	(2 349 401)
Trade receivables from non-exchange	-	6 640 826
VAT	-	27 845 973
Trade receivables from exchange transactions	-	2 667 558
Property, plant and equipment	-	28 057 276
Payables from exchange transactions	-	1 621 979
Accumulated surplus	-	(64 486 353)
Statement of financial performance		
Remuneration of councillors	-	65 000
Depreciation and amortisation	-	(10 919 793)
Finance costs	-	(336 055)
Debt Impairment	-	7 514 763
Repairs and maintenance	-	(236 795)
Loss due to undeposited receipts	-	(462 307)
Contracted services	-	370 903
Fines & penalties	-	(161 196)
General Expenses	-	(278 314)
(Loss)/Gain on disposal of assets and liabilities	-	(579)
Cash flow statement		
Cash flow from operating activities		
Cash receipts from ratepayers, government and others	-	(897 845)
Cash flow from operating activities		
Interest paid	-	(7 510 357)
Cash paid to suppliers and employees	-	8 408 202
	-	897 845
Commitments		
Closing balance	-	28 690 627
Adjustments made	-	16 442 436
Restated closing balance	-	45 133 063

Adjustment made to opening balance of commitments is due to an invoice from supplier Business Connection that was previously not accounted for in the yearly expenditure for the 2019 financial period. There were also 3 capital projects that were approved in the 2018/19 financial year, but not contracted for that were not previously disclosed.

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand	2020	2019
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50. Prior period errors (continued)

Fruitless and wasteful expenditure

Closing balance	-	47 297 083
Adjustments made	-	1 057 112
Restated closing balance	-	48 354 195

Adjustment made to opening balance of fruitless and wasteful expenditure is due to interest that was previously not accrued for in the prior financial periods.

Irregular expenditure

Closing balance	-	311 280 037
Adjustments made	-	(534 494)
Restated closing balance	-	310 745 543

Adjustment made to opening balance of irregular expenditure is due to the incorrect inclusion of VAT in the disclosed amounts and the omission of irregular expenditure from various suppliers in the 2019 financial period.

Related Party Transactions 137 097 958

51. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior period errors.

Reclassifications

The following reclassifications adjustment occurred:

Reclassification 1

Trade receivables from non-exchange, trade receivables from exchange and VAT payable were all understated by R 1 275 341, R 169 444 and R 1 444 785 respectively as a result of classification issues in the opening balance in the ledger and sub - ledger. This classification error effected each balance as follows:

Rates	R 1 275 341
Electricity	R 16 265
Water	R 33 890
Sewerage	R 65 521
Refuse	R 53 768
VAT payable	R 1 444 785

52. Additional disclosure in terms of Municipal Finance Management Act

Audit fees Auditor General

Opening balance	(1 947 201)	12 054
Current year subscription / fee	(2 830 402)	(2 497 399)
Amount paid - current year	1 229 869	538 144
	(3 547 734)	(1 947 201)

Tswaing Local Municipality

Annual Financial Statements for the year ended 30 June 2020

Notes to the Annual Financial Statements

Figures in Rand

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

PAYE, SDL and UIF

Opening balance	(23 524 828)	(14 134 416)
Current year subscription / fee	(17 297 372)	(15 097 672)
Amount paid	6 971 647	5 707 260
Amount paid - transferred from VAT account	5 515 385	-
	(28 335 168)	(23 524 828)

South African Local Government Association

Opening balance	(1 011 585)	(831 006)
Current year subscription / fee	(1 021 241)	(1 011 585)
Amount paid - current year	1 006 066	831 006
	(1 026 760)	(1 011 585)

VAT

VAT receivable	9 762 670	6 594 537
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The municipality submits VAT 201's to SARS on the payment basis, while the VAT payable above is on an accrual basis. This results in time differences between amounts reflected by SARS and the municipality on VAT.

All VAT returns have been submitted by the due date throughout the year.

Councillors' arrear consumer accounts

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

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Hon Cllr T.A. Morei	850	15 377	16 227
Cllr M E Booï	850	19 455	20 305
Cllr N J Molehabangwe	850	17 827	18 677
Cllr A T Mabovu	3 300	18 269	21 569
Cllr S Viljoen	2 233	29 459	31 692
Cllr L Y Taljaard	903	28 529	29 432
	8 986	128 916	137 902