



Kagisano-Molopo Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2020

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## General Information

---

<b>Country of incorporation and domicile</b>	South Africa
<b>Legal form of entity</b>	Municipality in terms of section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)
<b>Nature of business and principal activities</b>	Kagisano-Molopo Local Municipality mandate is: <ul style="list-style-type: none"><li>- to provide democratic and accountable government for local communities;</li><li>- to ensure the provision of services to communities in a sustainable manner;</li><li>- to promote social and economic development;</li><li>- to promote a safe and healthy environment;</li><li>- to encourage the involvement of communities and community organisations in the matters of local government</li></ul>
<b>Legislation governing the municipality's operations</b>	Constitution of the Republic of south Africa (Act 108 of 1998) Local Government: Municipal Finance Management Act (Act no.56 of 2003) Local Government: Municipal Systems Act (Act 32 of 2000) Local Government: Municipal Structures Act (Act 117 of 1998) Municipal Property Rates Act (act of 6 2004) Division of Revenue Act (Act 1 of 2007)
<b>Mayoral committee</b>	
Mayor	SV Mere
Speaker	SR Modise
MMC: Budget & Treasury and Corporate Services	TM Lenkopane
MMC: Infrastructure and Technical Services	JK Botha
MMC: Planning and Development	LE Gaobepe-Boemo
MMC: Community Services & Local Economic Development	GK Nthebotsenyane
Councillors	BR Bareng MM Diphikwe KI Gabe TZ Baakanyang JM Grobbelaar BE Gender GF Selebogo PP Moeng TM Lenner TC Loabile KS Moreki BB Makwati TE Matsietso KN Sekopecwe NJD Muller TM Olaotwe MM Seeletso OM Serame TJ Thetswe MJ Moreki SO Lekgari KG Ogaseng LC Loabile-Gaanakgomo

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## General Information

---

<b>Grading of local authority</b>	Grade 2
<b>Accounting Officer</b>	OT Bojosinyane
<b>Chief Finance Officer (CFO)</b>	R Ferris
<b>Registered office</b>	Municipal Offices next to Ganyesa Clinic Chief Block Section Tlakgameng Road Ganyesa 8613
<b>Business address</b>	Municipal Offices next to Ganyesa Clinic Chief Block Section Tlhakagameng Road Ganyesa 8613
<b>Postal address</b>	PO Box X522 Ganyesa 8613
<b>Bankers</b>	ABSA Bank
<b>Auditors</b>	Auditor General of South Africa (AGSA)

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Index

---

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

	<b>Page</b>
Accounting Officer's Responsibilities and Approval	4
Accounting Officer's Report	5 - 6
Statement of Financial Position	7
Statement of Financial Performance	8
Statement of Changes in Net Assets	9
Cash Flow Statement	10
Statement of Comparison of Budget and Actual Amounts	11 - 12
Appropriation Statement	13 - 17
Accounting Policies	18 - 48
Notes to the Annual Financial Statements	48 - 93

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Officer's Responsibilities and Approval

---

The accounting officer is required by the Municipal Finance Management Act (Act no.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 financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the financial statements and was given unrestricted access to all financial records and related data.

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

The 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 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 financial statements are prepared on the basis that the municipality is a going concern and that the Kagisano-Molopo Local Municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The municipality was subjected to the circumstances of the Covid-19 pandemic and a National Disaster as declared by the South African Government on 15 March 2020. The stakeholders attention is drawn to the fact that the future impact on the economy in the short term is uncertain and thus an estimate of the financial impact on the business cannot be made at this point in time.

The financial statements set out from page 7, which have been prepared on the going concern basis, were approved by the accounting officer on 31 October 2020 and were signed on its behalf by:

  
\_\_\_\_\_  
**OT Bojosiinyane**  
**Accounting Officer**

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Officer's Report

---

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

### 1. Incorporation

The municipality was incorporated on 12 December 2011 and obtained its certificate to commence business on the same day.

### 2. Review of activities

#### Main business and operations

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

Net surplus of the municipality was R 12 718 680 (2019: deficit R 5 477 509).

### 3. 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.

### 4. Subsequent events

The accounting officer is not aware on any subsequent events..

### 5. Accounting policies

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

### 6. Accounting Officer

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

Name	Nationality
OT Bojosinyane	South African

### 7. Corporate governance

#### General

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

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discuss the responsibilities of management in this respect, at council meetings and monitor the municipality's compliance with the code on a regular basis.

#### Council meetings

The accounting officer has met on several occasions with the council during the financial year. The council schedules to meet at least 4 times per annum.

#### Internal audit

The municipality has a shared internal audit function with Dr. Ruth Segomotsi Mompati District Municipality. This is in compliance with the Municipal Finance Management Act, 2003.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Officer's Report

---

### 8. Auditors

Auditor General of South Africa (AGSA) will continue in office for the next financial period.

  

---

**OT Bojosinyane**  
Accounting Officer

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Position as at 30 June 2020

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	6&10	436 284	560 946
Receivables from non-exchange transactions	7&10	33 877 011	18 375 275
VAT receivable	9	12 970 780	8 297 497
Cash and cash equivalents	11	746 891	38 515 046
		<b>48 030 966</b>	<b>65 748 764</b>
<b>Non-Current Assets</b>			
Investment property	3	44 033 366	44 033 366
Property, plant and equipment	4	504 709 660	477 419 906
Intangible assets	5	329 721	542 878
		<b>549 072 747</b>	<b>521 996 150</b>
<b>Total Assets</b>		<b>597 103 713</b>	<b>587 744 914</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	12	1 447 910	108 268
Payables from exchange transactions	16	22 995 530	25 625 745
Unspent conditional grants and receipts	13	-	1 851 670
Provisions	14	175 398	111 155
Debtors with credit balances	15	13 510 816	17 350 725
		<b>38 129 654</b>	<b>45 047 563</b>
<b>Non-Current Liabilities</b>			
Finance lease obligation	12	1 881 947	-
Provisions	14	22 829 907	21 153 823
		<b>24 711 854</b>	<b>21 153 823</b>
<b>Total Liabilities</b>		<b>62 841 508</b>	<b>66 201 386</b>
<b>Net Assets</b>		<b>534 262 205</b>	<b>521 543 528</b>
Accumulated surplus		534 262 208	521 543 528

\* See Note 43 & 42

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Financial Performance

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Rental of facilities and equipment	18	1 245 573	1 210 935
Interest received (trading)		1 395 548	966 357
Other income	20	1 980 362	373 641
Interest received - investment	21	1 831 007	3 074 147
<b>Total revenue from exchange transactions</b>		<b>6 452 490</b>	<b>5 625 080</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	22	34 483 977	27 049 540
<b>Transfer revenue</b>			
Government grants & subsidies	24	159 882 151	162 308 757
<b>Total revenue from non-exchange transactions</b>		<b>194 366 128</b>	<b>189 358 297</b>
<b>Total revenue</b>	17	<b>200 818 618</b>	<b>194 983 377</b>
<b>Expenditure</b>			
Employee related costs	25	(39 168 526)	(33 216 719)
Remuneration of councillors	26	(11 717 478)	(11 261 120)
Depreciation and amortisation	27	(23 778 220)	(23 961 872)
Impairment of assets	28	(7 573 219)	(3 804 156)
Finance costs	29	(387 997)	(292 290)
Debt Impairment	30	(5 460 491)	(5 672 147)
Repairs and maintenance		(1 682 394)	(2 224 163)
Contracted services	31	(36 290 918)	(34 087 057)
Transfers and Subsidies	23	(3 533 318)	(2 182 297)
Loss on disposal of assets and liabilities		(383 499)	(17 225 012)
Fair value adjustments		-	(9 267 000)
General Expenses	32	(58 123 878)	(57 267 053)
<b>Total expenditure</b>		<b>(188 099 938)</b>	<b>(200 460 886)</b>
<b>Surplus (deficit) for the year</b>		<b>12 718 680</b>	<b>(5 477 509)</b>

\* See Note 43 & 42

# Kagisano-Molopo Local Municipality

(Registration number NW397)

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	526 756 928	526 756 928
Adjustments		
Correction of errors	-	-
<b>Balance at 01 July 2018 as restated*</b>	<b>526 756 928</b>	<b>526 756 928</b>
Changes in net assets		
Surplus for the year	(8 561 880)	(8 561 880)
Total changes	(8 561 880)	(8 561 880)
Opening balance as previously reported	518 195 048	518 195 048
Prior year adjustments	3 348 480	3 348 480
<b>Restated* Balance at 01 July 2019 as restated*</b>	<b>521 543 528</b>	<b>521 543 528</b>
Changes in net assets		
Surplus for the year	12 718 680	12 718 680
Total changes	12 718 680	12 718 680
<b>Balance at 30 June 2020</b>	<b>534 262 208</b>	<b>534 262 208</b>

Note(s)

\* See Note 43 & 42

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Cash Flow Statement

Figures in Rand	Note(s)	2020	2019 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property rates		11 716 688	33 060 543
Sale of goods and services		(5 483 363)	(4 694 771)
Grants		159 882 151	162 308 757
Interest income		1 831 007	3 074 147
Other income		1 980 362	373 641
Interest received: Outstanding		1 395 548	966 356
		171 322 393	195 088 673
<b>Payments</b>			
Employee costs		(50 038 149)	(43 769 001)
Suppliers		(103 219 921)	(101 292 308)
Finance costs		(58 462)	(209 816)
Other cash item		130 465	(581 814)
		(153 186 067)	(145 852 939)
<b>Net cash flows from operating activities</b>	37	<b>18 136 326</b>	<b>49 235 734</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(50 934 041)	(47 964 268)
Purchase of other intangible assets	5	-	(45 430)
<b>Net cash flows from investing activities</b>		<b>(50 934 041)</b>	<b>(48 009 698)</b>
<b>Cash flows from financing activities</b>			
Finance lease payments		(4 640 905)	(1 235 843)
Finance costs		(329 535)	(82 474)
<b>Net cash flows from financing activities</b>		<b>(4 970 440)</b>	<b>(1 318 317)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>(37 768 155)</b>	<b>(92 281)</b>
Cash and cash equivalents at the beginning of the year		38 515 046	38 607 327
<b>Cash and cash equivalents at the end of the year</b>	11	<b>746 891</b>	<b>38 515 046</b>

\* See Note 43 & 42

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Rental of facilities and equipment	1 600 000	380 000	<b>1 980 000</b>	1 245 573	<b>(734 427)</b>	53 A
Interest received (trading)	700 000	-	<b>700 000</b>	1 395 548	<b>695 548</b>	53 B
Other income - (rollup)	1 100 000	1 120 000	<b>2 220 000</b>	1 980 362	<b>(239 638)</b>	53 C
Interest received - investment	2 200 000	-	<b>2 200 000</b>	1 831 007	<b>(368 993)</b>	53 D
<b>Total revenue from exchange transactions</b>	<b>5 600 000</b>	<b>1 500 000</b>	<b>7 100 000</b>	<b>6 452 490</b>	<b>(647 510)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	28 818 299	4 454 441	<b>33 272 740</b>	34 483 977	<b>1 211 237</b>	53 E
<b>Transfer revenue</b>						
Government grants & subsidies	171 095 000	(296 000)	<b>170 799 000</b>	159 882 151	<b>(10 916 849)</b>	53 F
<b>Total revenue from non-exchange transactions</b>	<b>199 913 299</b>	<b>4 158 441</b>	<b>204 071 740</b>	<b>194 366 128</b>	<b>(9 705 612)</b>	
<b>Total revenue</b>	<b>205 513 299</b>	<b>5 658 441</b>	<b>211 171 740</b>	<b>200 818 618</b>	<b>(10 353 122)</b>	
<b>Expenditure</b>						
Employee Related Costs	(46 238 988)	7 890 817	<b>(38 348 171)</b>	(39 168 526)	<b>(820 355)</b>	53 G
Remuneration of councillors	(12 779 303)	1 960 827	<b>(10 818 476)</b>	(11 717 478)	<b>(899 002)</b>	53 H
Depreciation and amortisation	(22 956 450)	-	<b>(22 956 450)</b>	(23 778 220)	<b>(821 770)</b>	53 I
Impairment loss/ Reversal of impairments	-	-	-	(7 573 219)	<b>(7 573 219)</b>	53 J
Finance costs	(390 000)	-	<b>(390 000)</b>	(387 997)	<b>2 003</b>	53 K
Debt Impairment	(5 000 000)	-	<b>(5 000 000)</b>	(5 460 491)	<b>(460 491)</b>	53 L
Repairs and maintenance	-	-	-	(1 682 394)	<b>(1 682 394)</b>	53 M
Contracted Services	(29 837 200)	(12 650 234)	<b>(42 487 434)</b>	(36 290 918)	<b>6 196 516</b>	53 N
Transfers and Subsidies	-	-	-	(3 533 318)	<b>(3 533 318)</b>	53 O
General Expenses	(69 228 326)	809 963	<b>(68 418 363)</b>	(58 123 878)	<b>10 294 485</b>	53 P
<b>Total expenditure</b>	<b>(186 430 267)</b>	<b>(1 988 627)</b>	<b>(188 418 894)</b>	<b>(187 716 439)</b>	<b>702 455</b>	
<b>Operating surplus</b>	<b>19 083 032</b>	<b>3 669 814</b>	<b>22 752 846</b>	<b>13 102 179</b>	<b>(9 650 667)</b>	
Loss on disposal of assets and liabilities	-	-	-	(383 499)	<b>(383 499)</b>	53 Q
<b>Surplus before taxation</b>	<b>19 083 032</b>	<b>3 669 814</b>	<b>22 752 846</b>	<b>12 718 680</b>	<b>(10 034 166)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>19 083 032</b>	<b>3 669 814</b>	<b>22 752 846</b>	<b>12 718 680</b>	<b>(10 034 166)</b>	

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Receivables from exchange transactions	450 000	-	<b>450 000</b>	436 284	<b>(13 716)</b>	53 R
Receivables from non-exchange transactions	10 381 000	-	<b>10 381 000</b>	33 877 011	<b>23 496 011</b>	53 S
VAT receivable	-	-	-	12 970 780	<b>12 970 780</b>	53 T
Cash and cash equivalents	58 016 000	(50 088 000)	<b>7 928 000</b>	746 891	<b>(7 181 109)</b>	
	<b>68 847 000</b>	<b>(50 088 000)</b>	<b>18 759 000</b>	<b>48 030 966</b>	<b>29 271 966</b>	
<b>Non-Current Assets</b>						
Investment property	47 832 000	-	<b>47 832 000</b>	44 033 366	<b>(3 798 634)</b>	53 U
Property, plant and equipment	422 536 000	-	<b>422 536 000</b>	504 709 660	<b>82 173 660</b>	53 V
Intangible assets	530 000	-	<b>530 000</b>	329 721	<b>(200 279)</b>	53 X
	<b>470 898 000</b>	-	<b>470 898 000</b>	<b>549 072 747</b>	<b>78 174 747</b>	
<b>Total Assets</b>	<b>539 745 000</b>	<b>(50 088 000)</b>	<b>489 657 000</b>	<b>597 103 713</b>	<b>107 446 713</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Finance lease obligation	-	-	-	1 447 910	<b>1 447 910</b>	53 Y
Payables from exchange transactions	6 560 000	-	<b>6 560 000</b>	22 995 530	<b>16 435 530</b>	53 Z
Provisions	21 750 000	-	<b>21 750 000</b>	175 398	<b>(21 574 602)</b>	53 AA
Debtors with credit balances	-	-	-	13 510 816	<b>13 510 816</b>	
	<b>28 310 000</b>	-	<b>28 310 000</b>	<b>38 129 654</b>	<b>9 819 654</b>	
<b>Non-Current Liabilities</b>						
Finance lease obligation	-	-	-	1 881 947	<b>1 881 947</b>	53 AB
Provisions	1 323 000	-	<b>1 323 000</b>	22 829 907	<b>21 506 907</b>	53 AC
	<b>1 323 000</b>	-	<b>1 323 000</b>	<b>24 711 854</b>	<b>23 388 854</b>	
<b>Total Liabilities</b>	<b>29 633 000</b>	-	<b>29 633 000</b>	<b>62 841 508</b>	<b>33 208 508</b>	
<b>Net Assets</b>	<b>510 112 000</b>	<b>(50 088 000)</b>	<b>460 024 000</b>	<b>534 262 205</b>	<b>74 238 205</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	510 112 000	(50 088 000)	<b>460 024 000</b>	534 262 205	<b>74 238 205</b>	53 AE
<b>Total Net Assets</b>	<b>510 112 000</b>	<b>(50 088 000)</b>	<b>460 024 000</b>	<b>534 262 205</b>	<b>74 238 205</b>	

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Appropriation Statement

Figures in Rand

---

	<b>Original budget</b>	<b>Budget adjustments (i.t.o. s28 and s31 of the MFMA)</b>	<b>Final adjustments budget</b>	<b>Shifting of funds (i.t.o. s31 of the MFMA)</b>	<b>Virement (i.t.o. council approved policy)</b>	<b>Final budget</b>	<b>Actual outcome</b>	<b>Unauthorised expenditure</b>	<b>Variance</b>	<b>Actual outcome as % of final budget</b>	<b>Actual outcome as % of original budget</b>
--	----------------------------	--	---	---	--	---------------------	---------------------------	-------------------------------------	-----------------	--	---

---

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Appropriation Statement

Figures in Rand

---

Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
---	---	----------------------------	--------------------------------

---

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2020</b>											
<b>Financial Performance</b>											
Property rates	28 818 299	4 454 441	33 272 740	-		33 272 740	34 483 977		1 211 237	104 %	120 %
Investment revenue	2 200 000	-	2 200 000	-		2 200 000	1 831 007		(368 993)	83 %	83 %
Transfers recognised - operational	171 095 000	296 000	171 391 000	-		171 391 000	168 437 151		(2 953 849)	98 %	98 %
Other own revenue	3 400 000	1 500 000	4 900 000	-		4 900 000	4 621 483		(278 517)	94 %	136 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>205 513 299</b>	<b>6 250 441</b>	<b>211 763 740</b>	<b>-</b>		<b>211 763 740</b>	<b>209 373 618</b>		<b>(2 390 122)</b>	<b>99 %</b>	<b>102 %</b>
Employee costs	(46 238 988)	7 890 817	(38 348 171)	-	-	(38 348 171)	(39 168 526)	-	(820 355)	102 %	85 %
Remuneration of councillors	(12 779 303)	1 960 827	(10 818 476)	-	-	(10 818 476)	(11 717 478)	-	(899 002)	108 %	92 %
Debt impairment	(5 000 000)	-	(5 000 000)			(5 000 000)	(5 460 491)	-	(460 491)	109 %	109 %
Depreciation and asset impairment	(22 956 450)	-	(22 956 450)			(22 956 450)	(31 351 439)	-	(8 394 989)	137 %	137 %
Finance charges	(390 000)	-	(390 000)	-	-	(390 000)	(387 997)	-	2 003	99 %	99 %
Transfers and grants	-	-	-	-	-	-	(3 533 318)	-	(3 533 318)	DIV/0 %	DIV/0 %
Other expenditure	(99 065 526)	(11 840 271)	(110 905 797)	-	-	(110 905 797)	(96 480 689)	-	14 425 108	87 %	97 %
<b>Total expenditure</b>	<b>(186 430 267)</b>	<b>(1 988 627)</b>	<b>(188 418 894)</b>	<b>-</b>	<b>-</b>	<b>(188 418 894)</b>	<b>(188 099 938)</b>	<b>-</b>	<b>318 956</b>	<b>100 %</b>	<b>101 %</b>
<b>Surplus/(Deficit)</b>	<b>19 083 032</b>	<b>4 261 814</b>	<b>23 344 846</b>	<b>-</b>		<b>23 344 846</b>	<b>21 273 680</b>		<b>(2 071 166)</b>	<b>91 %</b>	<b>111 %</b>

## Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

### Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	37 590 000	(756 000)	36 834 000	-		36 834 000	39 568 000		2 734 000	107 %	105 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>56 673 032</b>	<b>3 505 814</b>	<b>60 178 846</b>	-		<b>60 178 846</b>	<b>60 841 680</b>		<b>662 834</b>	<b>101 %</b>	<b>107 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>56 673 032</b>	<b>3 505 814</b>	<b>60 178 846</b>	-		<b>60 178 846</b>	<b>60 841 680</b>		<b>662 834</b>	<b>101 %</b>	<b>107 %</b>
<b>Capital expenditure and funds sources</b>											
Total capital expenditure	68 408 000	(10 881 000)	57 527 000	-		57 527 000	58 796 534		1 269 534	102 %	86 %
<b>Sources of capital funds</b>											
Transfers recognised - capital	37 590 000	756 000	38 346 000	-		38 346 000	38 346 000		-	100 %	102 %
Internally generated funds	30 819 000	(11 637 000)	19 182 000	-		19 182 000	20 450 584		1 268 584	107 %	66 %
<b>Total sources of capital funds</b>	<b>68 409 000</b>	<b>(10 881 000)</b>	<b>57 528 000</b>	-		<b>57 528 000</b>	<b>58 796 584</b>		<b>1 268 584</b>	<b>102 %</b>	<b>86 %</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	37 040 000	(4 283 000)	32 757 000	-		32 757 000	18 136 326		(14 620 674)	55 %	49 %
Net cash from (used) investing	(62 084 000)	-	(62 084 000)	-		(62 084 000)	(50 934 041)		11 149 959	82 %	82 %
Net cash from (used) financing	(1 260 000)	-	(1 260 000)	-		(1 260 000)	(4 970 440)		(3 710 440)	394 %	394 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(26 304 000)</b>	<b>(4 283 000)</b>	<b>(30 587 000)</b>	-		<b>(30 587 000)</b>	<b>(37 768 155)</b>		<b>(7 181 155)</b>	<b>123 %</b>	<b>144 %</b>
Cash and cash equivalents at the beginning of the year	58 016 000	(19 501 000)	38 515 000	-		38 515 000	38 515 046		46	100 %	66 %
<b>Cash and cash equivalents at year end</b>	<b>31 712 000</b>	<b>(23 784 000)</b>	<b>7 928 000</b>	-		<b>7 928 000</b>	<b>746 891</b>		<b>7 181 109</b>	<b>9 %</b>	<b>2 %</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

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

### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act no.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 financial statements, management is required to make estimates and assumptions that affect the amounts represented in the 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 financial statements. Significant judgements include:

In the application of the municipality's accounting policies, which are described below, management is required to make judgement, estimates and assumption that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The estimates and associated assumptions are based on historical experiences and other factors that are considered to reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates

These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

#### 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.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

#### Fair value estimation

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

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

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

#### 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 14 - Provisions.

#### Useful lives of infrastructure, community and other assets

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

#### Post-retirement benefits

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

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

#### Effective interest rate

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

#### Allowance for doubtful debts

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

#### Impairment of statutory receivables

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

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

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

#### Accounting for adjustments to revenue

Determining whether an adjustment to revenue charged in terms of legislation or similar means is a correction of an error or a change in an accounting estimate requires the application of judgement by management. When adjustments to revenue already recognised arise from new information that becomes known to the municipality, the following considerations are applied to determine whether the adjustment to revenue already recognised is a correction of an error or a change in an accounting estimate:

- (a) If information becomes known to the municipality, and the municipality could reasonably have been expected to know of the information and/or the information used was incorrect, the adjustment to revenue is likely to be a correction of an error.
- (b) If information becomes known to the municipality, but the municipality could not reasonably have been expected to know of this information when the revenue was charged, the adjustment to revenue is likely to be a change in an accounting estimate.

### 1.4 Investment property

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

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

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

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the 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.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.4 Investment property (continued)

#### Fair value

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

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

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

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

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

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property (property, plant and equipment), the deemed cost for subsequent accounting is the fair value [or carrying amount if cost model is used] at the date of change in use. If owner-occupied property becomes an investment property, the entity accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

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

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

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

### 1.5 Property, plant and equipment

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

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.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

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	30
Machinery and equipment	Straight-line	5-10
Furniture and fixtures	Straight-line	7
Motor vehicles	Straight-line	7
Office equipment	Straight-line	7
Emergency equipment	Straight-line	7
Community	Straight-line	30
Other property, plant and equipment	Straight-line	5-10
Other community assets	Straight-line	15-30
Roads network	Straight-line	10-70
Electricity network	Straight-line	45
Storm water network	Straight-line	30-40
Landfile site Perimeter Protection and Structures	Straight-line	10-55

Land is not depreciated.

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.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

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. Depreciation of an asset commences when the asset is ready for its intended use. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, the term of the relevant lease. The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is ready for use.

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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment 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 ).

### 1.6 Site restoration and dismantling cost

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

### 1.7 Intangible assets

An asset is identifiable if it either:

- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.7 Intangible assets (continued)

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

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

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight-line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

---

<b>Item</b>	<b>Depreciation method</b>	<b>Average useful life</b>
Computer software, other	Straight-line	5 Years

---

Intangible assets are derecognised:

- 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 intangible assets is included in surplus or deficit when the asset is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

### 1.8 Financial instruments

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

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

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.8 Financial instruments (continued)

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 municipality'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 municipality 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 municipality shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

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

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 municipality; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

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 municipality 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.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.8 Financial instruments (continued)

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 municipality after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unissued 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 municipality'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 municipality.

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

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

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

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.8 Financial instruments (continued)

#### Classification

The municipality 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

Receivables from exchange transactoins  
Cash and cash equivalents

#### Category

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

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

#### Class

Payables from exchange transactions  
Finance lease obligations

#### Category

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.8 Financial instruments (continued)

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:

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

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

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

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

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

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

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

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

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

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

#### Fair value measurement considerations

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

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

#### Gains and losses

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

#### Impairment and uncollectibility of financial assets

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.8 Financial instruments (continued)

#### Financial assets measured at amortised cost:

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

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

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.8 Financial instruments (continued)

#### Financial liabilities

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

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

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

#### Presentation

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

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

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

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

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

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

### 1.9 Statutory receivables

#### Identification

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

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

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

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

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

#### Recognition

The entity recognises statutory receivables as follows:

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.9 Statutory receivables (continued)

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

#### Initial measurement

The entity initially measures statutory receivables at their transaction amount.

#### Subsequent measurement

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

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

#### Accrued interest

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

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

#### Other charges

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

#### Impairment losses

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

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

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

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

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.9 Statutory receivables (continued)

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

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

#### Derecognition

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

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

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

### 1.10 Tax

#### Value added taxation (VAT)

The municipality account for value added taxation of the accrual basis.

### 1.11 Leases

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

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

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.11 Leases (continued)

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation. The cost of the item of property, plant and equipment is depreciated at appropriate rates on the straight-line basis over its estimated useful life. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

The discount rate used in calculating the present value of the minimum lease payments is the 10.5%.

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

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

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.12 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by completion of a physical proportion of the contract work.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.12 Construction contracts and receivables (continued)

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

### 1.13 Impairment of cash-generating assets

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

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.

Criteria developed by the municipality to distinguish cash-generating assets from non-cash-generating assets are as follows:

#### Identification

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

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

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

#### Value in use

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

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

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

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

#### Discount rate

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

#### Redesignation

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

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

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

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

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

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

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

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

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

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

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

Useful life is either:

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

#### Identification

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

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

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

#### Value in use

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

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

#### Reversal of an impairment loss

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

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

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

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

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

#### Redesignation

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

### 1.15 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 month after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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 expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

#### Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.15 Employee benefits (continued)

#### Long service awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the municipality. The municipality's obligation under these plans is valued at each reporting date by an independent qualified actuary and the corresponding liability is raised.

Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions, is recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by the independent qualified actuaries.

### 1.16 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 surplus (deficit).

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

A constructive obligation to restructure arises only when an entity:

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.16 Provisions and contingencies (continued)

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 40.

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, a municipality recognises the obligation at the higher of:

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.16 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.13 and 1.14.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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

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

### 1.17 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.

### 1.18 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.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.18 Revenue from exchange transactions (continued)

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

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

#### Measurement

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

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.18 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

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

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

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

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

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

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

### 1.19 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.

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, the 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.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

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

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

#### Recognition

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

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

#### Measurement

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

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

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

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

#### Taxes

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

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

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

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

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

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

#### Transfers

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

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

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

### 1.20 Investment income

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

### 1.21 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.

### 1.22 Comparative figures

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

### 1.23 Unauthorised expenditure

Unauthorised expenditure means:

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

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance 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.

### 1.24 Fruitless and wasteful expenditure

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

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.25 Irregular expenditure

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

### 1.26 Budget information

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

General purpose financial reporting by 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 01/07/2019 to 30/06/2020.

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

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

### 1.27 Related parties

The municipality 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 local 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 considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

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

### 1.28 Events after reporting date

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Accounting Policies

---

### 1.28 Events after reporting date (continued)

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

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

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

## Notes to the Annual Financial Statements

---

Figures in Rand	2020	2019
-----------------	------	------

---

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

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

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

When an entity concludes that it controls the land after applying the principles in this Interpretation of the Standards of GRAP, it applies the applicable Standard of GRAP, i.e. the Standard of GRAP on Inventories, Investment Property (GRAP 16), Property, Plant and Equipment (GRAP 17) or Heritage Assets. As this Interpretation of the Standards of GRAP does not apply to the classification, initial and subsequent measurement, presentation and disclosure requirements of land, the entity applies the applicable Standard of GRAP to account for the land once control of the land has been determined. An entity also applies the applicable Standards of GRAP to the derecognition of land when it concludes that it does not control the land after applying the principles in this Interpretation of the Standards of GRAP.

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

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

The municipality has adopted the interpretation for the first time in the 2019/2020 annual financial statements.

The impact of the interpretation is not material.

##### **IGRAP 19: Liabilities to Pay Levies**

This Interpretation of the Standards of GRAP provides guidance on the accounting for levies in the financial statements of the entity that is paying the levy. It clarifies when entities need to recognise a liability to pay a levy that is accounted for in accordance with GRAP 19.

To clarify the accounting for a liability to pay a levy, this Interpretation of the Standards of GRAP addresses the following issues:

- What is the obligating event that gives rise to the recognition of a liability to pay a levy?
- Does economic compulsion to continue to operate in a future period create a constructive obligation to pay a levy that will be triggered by operating in that future period?
- Does the going concern assumption imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period?

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

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

- Does the recognition of a liability to pay a levy arise at a point in time or does it, in some circumstances, arise progressively over time?
- What is the obligating event that gives rise to the recognition of a liability to pay a levy that is triggered if a minimum threshold is reached?

Consensus reached in this interpretation:

- 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;
- An entity does not have a constructive obligation to pay a levy that will be triggered by operating in a future period as a result of the entity being economically compelled to continue to operate in that future period;
- The preparation of financial statements under the going concern assumption does not imply that an entity has a present obligation to pay a levy that will be triggered by operating in a future period;
- The liability to pay a levy is recognised progressively if the obligating event occurs over a period of time;
- If an obligation to pay a levy is triggered when a minimum threshold is reached, the accounting for the liability that arises from that obligation shall be consistent with the principles established in this Interpretation of the Standards of GRAP; and
- An entity shall recognise an asset, in accordance with the relevant Standard of GRAP, if it has prepaid a levy but does not yet have a present obligation to pay that levy.

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

The entity has adopted the interpretation for the first time when the Minister sets the effective date for the interpretation.

The impact of the interpretation is not material.

### **GRAP 109: Accounting by Principals and Agents**

The objective of this Standard is to outline principles to be used by an entity to assess whether it is party to a principal-agent arrangement, and whether it is a principal or an agent in undertaking transactions in terms of such an arrangement. The Standard does not introduce new recognition or measurement requirements for revenue, expenses, assets and/or liabilities that result from principal-agent arrangements. The Standard does however provide guidance on whether revenue, expenses, assets and/or liabilities should be recognised by an agent or a principal, as well as prescribe what information should be disclosed when an entity is a principal or an agent.

It furthermore covers Definitions, Identifying whether an entity is a principal or agent, Accounting by a principal or agent, Presentation, Disclosure, Transitional provisions and Effective date.

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

The entity has adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is not material.

### **GRAP 32: Service Concession Arrangements: Grantor**

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

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

The entity has adopted the standard for the first time in the 2020/2020 annual financial statements.

The impact of the standard is not material.

### **IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset**

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

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

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

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

The entity has adopted the interpretation for the first time when the Minister sets the effective date for the interpretation.

The impact of the interpretation is not material.

#### **GRAP 108: Statutory Receivables**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

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

The entity has adopted the standard for the first time when the Minister sets the effective date for the standard.

The impact of the standard is material.

#### **GRAP 18 (as amended 2016): Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

The subsequent amendments to the Standard of GRAP on Segment Reporting resulted from editorial and other changes to the original text have been made to ensure consistency with other Standards of GRAP.

The most significant changes to the Standard are:

- General improvements: An appendix with illustrative segment disclosures has been deleted from the Standard as the National Treasury has issued complete examples as part of its implementation guidance.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

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

The effective date of the standard is for years beginning on or after 01 April 2020

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

#### GRAP 20: Related parties

The objective of this standard is to ensure that a reporting entity's annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

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

- Related party transactions; and
- Remuneration of management

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

The entity has adopted the standard for the first time in the 2020/2020 annual financial statements.

The adoption of this standard has not had a material impact on the results of the entity, but has resulted in more disclosure than would have previously been provided in the annual financial statements.

### GRAP 7 (as revised 2010): Investments in Associates

Paragraphs .03 and .42 were amended by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers amended paragraphs .22, .28 and .38 and added paragraph .24. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

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

The entity has adopted the standard for the first time in the 2020/2020 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

### GRAP 8 (as revised 2010): Interests in Joint Ventures

Paragraph .04 was amended by the Improvements to the Standards of GRAP issued in November 2010. If an entity elects to apply these amendments earlier, it shall disclose this fact.

The Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers added paragraph .50 and amended paragraphs .51 and .52. An entity shall apply these amendments and addition when it applies the Standards of GRAP on Transfer of Functions Between Entities Under Common Control, Transfer of Functions Between Entities Not Under Common Control and Mergers.

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

The entity has adopted the standard for the first time in the 2020/2020 annual financial statements.

The impact of the amendment is set out in note Changes in Accounting Policy.

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

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

### GRAP 104 (amended): Financial Instruments

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

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

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

The most significant changes to the Standard affect:

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

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

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

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

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

#### 2.3 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the entity's accounting periods beginning on or after 01 July 2020 or later periods but are not relevant to its operations:

**GRAP 104: Financial Instruments**

**Not yet determined**

## Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

### Notes to the Annual Financial Statements

Figures in Rand

#### 3. Investment property

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	44 033 366	-	44 033 366	44 033 366	-	44 033 366

#### Reconciliation of investment property - 2020

	Opening balance	Total
Investment property	44 033 366	44 033 366

#### Reconciliation of investment property - 2019

	Opening balance	Fair value adjustments	Total
Investment property	53 300 366	(9 267 000)	44 033 366

Fair value of investment properties - 44 033 366

#### Pledged as security

No investment property were pledged as security.

#### Details of property

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.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

Figures in Rand	2020	2019
-----------------	------	------

---

### 3. Investment property (continued)

#### Details of valuation

The effective date of the revaluations was 30 June 2020. Revaluations were performed by an independent valuer, EMS Solutions. The valuers are not connected to the municipality and have recent experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

#### Amounts recognised in surplus or deficit

Rental revenue from Investment property	1 245 573	1 210 935
---	-----------	-----------

#### From investment property that generated rental revenue

Direct operating expenses (excluding repairs and maintenance)	-	-
---	---	---

Repairs and maintenance	-	-
-------------------------	---	---

---

	-	-
--	---	---

---

#### From investment property that did not generate rental revenue

Direct operating expenses (excluding repairs and maintenance)	-	-
---	---	---

Repairs and maintenance	-	-
-------------------------	---	---

---

	-	-
--	---	---

---

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment

	2020			2019		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	838 456	-	838 456	838 456	-	838 456
Buildings	68 284 749	(25 829 483)	42 455 266	59 053 046	(16 798 430)	42 254 616
Leasehold property	15 154 442	(9 919 960)	5 234 482	7 291 949	(7 291 949)	-
Infrastructure	322 636 771	(108 504 170)	214 132 601	292 724 230	(97 604 894)	195 119 336
Community	274 893 642	(49 989 041)	224 904 601	265 968 994	(44 112 647)	221 856 347
Other property, plant and equipment	35 603 643	(18 459 389)	17 144 254	33 737 868	(16 386 717)	17 351 151
<b>Total</b>	<b>717 411 703</b>	<b>(212 702 043)</b>	<b>504 709 660</b>	<b>659 614 543</b>	<b>(182 194 637)</b>	<b>477 419 906</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Additions	Disposals	Work in progress	Depreciation	Impairment loss	Total
Land	838 456	-	-	-	-	-	838 456
Buildings	42 254 616	6 198 788	-	3 032 915	(1 513 560)	(7 517 493)	42 455 266
Leasehold property	-	7 862 493	-	-	(2 628 011)	-	5 234 482
Infrastructure	195 119 336	44 107 199	-	(14 194 659)	(10 899 275)	-	214 132 601
Community	221 856 347	536 965	(159 682)	8 621 399	(5 950 428)	-	224 904 601
Other property, plant and equipment	17 351 151	2 631 433	(219 799)	-	(2 558 786)	(59 745)	17 144 254
	<b>477 419 906</b>	<b>61 336 878</b>	<b>(379 481)</b>	<b>(2 540 345)</b>	<b>(23 550 060)</b>	<b>(7 577 238)</b>	<b>504 709 660</b>

## Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

### Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Additions	Disposals	Work in progress	Depreciation	Impairment loss	Total
Land	838 456	-	-	-	-	-	838 456
Buildings	43 579 188	-	-	-	(1 324 572)	-	42 254 616
Leasehold property	2 430 656	-	-	-	(2 430 656)	-	-
Infrastructure	201 118 881	-	(12 517 688)	18 287 895	(11 304 135)	(465 617)	195 119 336
Community	200 591 834	27 192 272	-	1 527 680	(5 405 601)	(2 049 838)	221 856 347
Other property, plant and equipment	25 716 337	956 421	(4 707 292)	-	(3 325 665)	(1 288 650)	17 351 151
	<b>474 275 352</b>	<b>28 148 693</b>	<b>(17 224 980)</b>	<b>19 815 575</b>	<b>(23 790 629)</b>	<b>(3 804 105)</b>	<b>477 419 906</b>

##### Property, Plant and Equipment Contractual Commitment 2019/2020

	Land and buildings	Infrastructure Assets	Community Assets	Leased Assets	Other Assets	Total
Commitment for the acquisition of property, plant and equipment	-	-	-	3 329 855	-	3 329 855
Commitment to construct or develop property, plant and equipment	69 381	8 972 142	7 997 327	-	-	17 038 850
Subtotal	69 381	8 972 142	7 997 327	3 329 855	-	20 368 705
	<b>69 381</b>	<b>8 972 142</b>	<b>7 997 327</b>	<b>3 329 855</b>	<b>-</b>	<b>20 368 705</b>

##### Pledged as security

Property, plant and equipment has not been pledged as security or collateral.

##### Assets subject to finance lease (Net carrying amount)

Leasehold property	5 234 482	-
Finance lease assets	-	-
	<b>5 234 482</b>	<b>-</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>4. Property, plant and equipment (continued)</b>		
<b>Property, plant and equipment in the process of being constructed or developed</b>		
<b>Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected</b>		
High mast lights: The delays in completion of high mast lights in various regions of the municipality are due to delays in Eskom connectivity delays, and community protests where community would halt project demanding more high mast lights than initially budgeted for. COVID-19 and lockdown restrictions had an impact on the delay of the completion of the projects.	34 731 327	55 483 471
Roads: The delays in completion of roads project are due to the late receipt of the Municipal infrastructure grant awarded for the construction of the roads. COVID-19 and lockdown restrictions had an impact on the delay of the completion of the projects.	13 867 828	3 843 360
Sports Facilities: The delays in completion of sports facility project are due to the late receipt of the Municipal infrastructure grant. COVID-19 and lockdown restrictions had an impact on the delay of the completion of the projects.	25 178 147	-
	<b>73 777 302</b>	<b>59 326 831</b>

### Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Included within Operational Buildings	Total
Opening balance	63 826 832	25 420 973	-	89 247 805
Additions/capital expenditure	32 751 500	8 657 394	6 483 206	47 892 100
Transferred to completed items	(34 141 679)	(536 965)	(6 198 788)	(40 877 432)
	<b>62 436 653</b>	<b>33 541 402</b>	<b>284 418</b>	<b>96 262 473</b>

### Reconciliation of Work-in-Progress 2019

	Included within Infrastructure	Included within Community	Total
Opening balance	44 378 231	22 908 649	67 286 880
Additions/capital expenditure	19 448 600	29 704 596	49 153 196
Transferred to completed items	-	(27 192 272)	(27 192 272)
	<b>63 826 831</b>	<b>25 420 973</b>	<b>89 247 804</b>

### 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

Land and Buildings	1 029 879	765 105
Infrastructure assets (roads, water and electrical)	279 337	387 534
Other assets (machinery, equipment and transport assets)	373 178	1 071 524
	<b>1 682 394</b>	<b>2 224 163</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

### 5. Intangible assets

	2020			2019		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	945 700	(615 979)	329 721	945 700	(402 822)	542 878

#### Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software, other	542 878	(213 157)	329 721

#### Reconciliation of intangible assets - 2019

	Opening balance	Additions	Amortisation	Impairment loss	Total
Computer software, other	668 897	45 430	(170 490)	(959)	542 878

#### Pledged as security

No intangible assets were pledged as security.

### 6. Receivables from exchange transactions

Prepaid expenses	390 457	367 500
Rental debtors	45 827	193 446
	<b>436 284</b>	<b>560 946</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 6. Receivables from exchange transactions (continued)

#### Trade and other receivables past due but not impaired

The ageing of amounts not impaired is as follows:

Current	14 713	43 648
1 month past due	1 891	13 047
2 months past due	1 891	63 484
3 months past due	27 116	73 268

#### Trade and other receivables impaired

As of 30 June 2020, trade and other receivables of R 7 436 794 (2019: R 5 404 026) were impaired and provided for.

The amount of the provision was R (7 391 225) as of 30 June 2020 (2019: R 5 210 536).

The ageing of these amount past due and impaired is as follows:

Current	247 187	194 924
1 month past due	104 119	78 384
2 months past due	100 572	203 425
3 months past due	6 984 959	4 927 293

#### Reconciliation of provision for impairment of trade and other receivables

Opening balance	5 210 536	3 669 434
Provision for impairment	2 178 670	1 541 102
	<b>7 389 206</b>	<b>5 210 536</b>

### 7. Receivables from non-exchange transactions

Other receivables from non-exchange revenue	6 537 843	6 684 174
Consumer debtors - Rates	27 339 168	11 691 101
	<b>33 877 011</b>	<b>18 375 275</b>

None of these financial assets were pledged as collateral for liabilities or contingent liabilities.

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

#### Receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2020, R - (2019: R -) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

3 months past due	27 339 168	11 691 101
-------------------	------------	------------

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 7. Receivables from non-exchange transactions (continued)

#### Receivables from non-exchange transactions impaired

As of 30 June 2020, other receivables from non-exchange transactions of R 53 255 398 (2019: R 34 327 528) were impaired and provided for.

The amount of the provision was R (25 916 230) as of 30 June 2020 (2019: R (22 636 427)).

The ageing of these receivables is as follows:

3 months past due	25 916 230	22 636 427
-------------------	------------	------------

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

Opening balance	22 636 427	18 505 383
Provision for impairment	3 279 803	4 131 044
	<b>25 916 230</b>	<b>22 636 427</b>

None of these financial assets were pledged as collateral for liabilities or contingent liabilities.

### 8. Statutory receivables

In accordance with the principles of GRAP 108, Statutory Receivables of the municipality are classified as follows:

VAT	12 970 780	8 297 497
-----	------------	-----------

The relating line item where statutory receivables are included is VAT receivable.

(Refer to Note 9)

Rates	27 339 168	11 691 101
-------	------------	------------

The relating line item where statutory receivables are included is Receivables from non-exchange transactions (Rates). Refer to note 7 & 10.

	<b>40 309 948</b>	<b>19 988 598</b>
--	-------------------	-------------------

#### Statutory receivables general information

##### Interest or other charges levied/charged

No interest was charged on statutory receivables.

##### Statutory receivables past due but not impaired

The ageing of amounts past due but not impaired is as follows:

3 months past due	27 339 168	11 691 101
-------------------	------------	------------

##### Statutory receivables impaired

The ageing of these loans is as follows:

3 Months past due	25 916 230	22 636 427
-------------------	------------	------------

#### Reconciliation of provision for impairment

Opening balance	22 636 427	18 505 383
Provision for impairment	3 279 803	4 131 044
	<b>25 916 230</b>	<b>22 636 427</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>9. VAT receivable</b>		
VAT	12 970 780	8 297 497
<p>Current tax receivable relates to a Value Added Tax Credit to be paid out by SARS. Kagisano-Molopo Local Municipality is registered as a VAT Vendor on the invoice basis. Included in the amounts disclosed on the face of the Statement of Financial Position may be amounts that relates to adjustments from SARS for which no transaction breakdown was received to indicate the nature and type of the disallowments relating to transactions. These amounts are recorded as reconciling items until reasons for the disallowment can be investigated.</p>		
<b>10. Consumer debtors disclosure</b>		
<b>Gross balances</b>		
Consumer debtors - Rates	53 255 398	34 327 528
Rental receivables	7 437 052	5 403 983
	<b>60 692 450</b>	<b>39 731 511</b>
<b>Less: Allowance for impairment</b>		
Consumer debtors - Rates	(25 916 230)	(22 636 427)
Rental receivables	(7 391 225)	(5 210 537)
	<b>(33 307 455)</b>	<b>(27 846 964)</b>
<b>Net balance</b>		
Consumer debtors - Rates	27 339 168	11 691 101
Rental receivables	45 827	193 446
	<b>27 384 995</b>	<b>11 884 547</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Property rates	27 339 168	11 691 101
Property rentals	45 827	193 446
	<b>27 384 995</b>	<b>11 884 547</b>
<b>Net balance</b>	<b>27 384 995</b>	<b>11 884 547</b>
<b>Property rates</b>		
91+ days	27 339 168	11 691 101
<b>Rental Debtors</b>		
Current (0 -30 days)	14 713	43 648
31 - 60 days	1 981	13 047
61 - 90 days	1 891	63 484
91 + days	27 242	73 267
	<b>45 827</b>	<b>193 446</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 10. Consumer debtors disclosure (continued)

#### Summary of debtors by customer classification

##### Farms and small holdings

91+ days	24 775 163	20 867 089
	24 775 163	20 867 089
Less: Allowance for impairment	(24 690 998)	(20 867 089)
	<b>84 165</b>	<b>-</b>

##### Rental, commercial and residential

Current (0 -30 days)	247 187	194 924
31 - 60 days	104 119	78 384
61 - 90 days	100 572	203 425
91+ days	8 211 210	6 595 912
	8 663 088	7 072 645
Less: Allowance for impairment	(8 616 456)	(6 879 156)
	<b>46 632</b>	<b>193 489</b>

##### State owned properties

91+ days	27 257 388	11 691 101
	27 257 388	11 691 101
Less: Allowance for impairment	-	-
	<b>27 257 388</b>	<b>11 691 101</b>

### 11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	362 094	20 527 537
Short-term deposits	384 797	17 987 509
	<b>746 891</b>	<b>38 515 046</b>

#### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

##### Credit rating

ABSA Bank Limited (Moody's short term deposit not on watch)	P3	P3
First Rand Bank (Moody's short term deposit not on watch)	P3	P3
Standard Bank Limited (Moody's short term deposit not on watch)	P3	P3
	-	-

#### Cash and cash equivalents pledged as collateral

There are no financial assets pledged as collateral.

	-	-
--	---	---

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 11. Cash and cash equivalents (continued)

The entity 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
ABSA Bank - Primary Bank - Acc no: 407801332	362 094	20 527 537	5 834 290	362 094	20 527 537	5 834 290
FNB Bank - Short-term Deposits - Acc no.: 62360911202	95 602	15 203 526	30 154 056	95 602	15 203 526	30 154 056
FNB Bank - Short-term Deposits - Acc no.: 62371561062	287 708	2 782 496	2 617 468	287 708	2 782 496	2 617 468
Standard Bank - Short-term Deposits - Acc no.: 048549592	1 487	1 487	1 487	1 487	1 487	1 487
<b>Total</b>	<b>746 891</b>	<b>38 515 046</b>	<b>38 607 301</b>	<b>746 891</b>	<b>38 515 046</b>	<b>38 607 301</b>

### 12. Finance lease obligation

#### Minimum lease payments due

- within one year	1 715 726	109 215
- in second to fifth year inclusive	2 001 681	-

less: future finance charges	3 717 407	109 215
	(387 552)	(947)

<b>Present value of minimum lease payments</b>	<b>3 329 855</b>	<b>108 268</b>
--	------------------	----------------

#### Present value of minimum lease payments due

- within one year	1 447 910	108 268
- in second to fifth year inclusive	1 881 945	-

	<b>3 329 855</b>	<b>108 268</b>
--	------------------	----------------

Non-current liabilities	1 881 947	-
Current liabilities	1 447 910	108 268
	<b>3 329 857</b>	<b>108 268</b>

The lease was entered into on 1 August 2019. The first instalment is due on 20 September 2020 and the final instalment will be made on 1 July 2019. A deposit amounting to R 3 946 170.80 was paid on this lease. The implicit interest rate amounts to nil as it is impracticable to determine it thus, 10% per annum ( 0.8333% per month) which is the government lending rate. Residual value ( guaranteed/ unguaranteed) is Rnil.

### 13. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Financial Management Grant	-	721 270
Expanded Public Works Grant	-	-
Local Government SETA Grant	-	-
Department of Sports, Arts and Culture Library Grant	-	900 199
Municipal Infrastructure Grant	-	230 201
Municipal Disaster Management Grant	-	-
	<b>-</b>	<b>1 851 670</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>13. Unspent conditional grants and receipts (continued)</b>		
<b>Movement during the year</b>		
Balance at the beginning of the year	1 851 670	721 270
Additions during the year	(951 471)	900 199
Income recognition during the year	(900 199)	230 201
	-	<b>1 851 670</b>

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

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 14. Provisions

#### Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	19 927 038	1 650 380	-	21 577 418
Long Service Award liability	1 337 940	208 425	(118 478)	1 427 887
	<b>21 264 978</b>	<b>1 858 805</b>	<b>(118 478)</b>	<b>23 005 305</b>

#### Reconciliation of provisions - 2019

	Opening Balance	Additions	Utilised during the year	Total
Environmental rehabilitation	19 578 477	348 561	-	19 927 038
Long Service Award liability	1 148 020	317 100	(127 180)	1 337 940
	<b>20 726 497</b>	<b>665 661</b>	<b>(127 180)</b>	<b>21 264 978</b>

Non-current liabilities			22 829 907	21 153 823
Current liabilities			175 398	111 155
			<b>23 005 305</b>	<b>21 264 978</b>

#### Environmental rehabilitation provision

##### Key Assumptions

The timing for the possible outflow of resources for the maintenance and rehabilitation of the illegal dumping site could not be determined at the date of the financial statements.

The following key assumptions were made to arrive at the amount disclosed as a possible future obligation:

- The cost estimate is based on 25% Preliminary and General (P&G) and a 10% contingency of the construction amount for unforeseen items.
- Included in the amount is a part time Civil Engineer as a site supervisor, a part time Occupational Health and Safety Officer and an Environment Control Officer to ensure that the site is closed in a safe manner and in terms of the OHS Act, the license and the Environmental Management Program.
- The rates used to determine the construction amount (cost) are based on current or recent contracts undertaken in similar circumstances in the local area.

Based on the key assumptions an estimated amount was calculated. The estimated value will need to be escalated by the local CPI for the number of years after the base date of 30 June 2020 when the construction project is actually undertaken.

This value will need to be escalated using the CPIX for the area to the year of final rehabilitation, if that is what takes place in approximately 2 years from now when the site is actually full and the new site has been constructed and approved for waste disposal practices.

#### Long service award liability

##### Key Assumptions

Financial assumptions: It is difficult to estimate future investment returns and salary inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP19 requires that financial assumptions be based on market expectations at the valuation date for the period over which the liability obligations are to be settled.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 14. Provisions (continued)

**Discount Rate:** The discount rate required by GRAP 25 should be set with reference to a government bond of a suitable duration. With this in mind, we have set the discount rate by using the "best fit" discount rate at 30 June 2020 which we have based on the yields from the zero-coupon government bond curve. The best fit has been determined taking into account the cash-flow weighted duration of the liabilities, which is approximately 8 years. The recommended discount rate is 9,40%. Even though the actual values used for the discount rate and the expected increase in salaries are important, the "gap" between the two assumptions are more important. This "gap" is referred to as the net discount rate. The net discount rate is 3,48% per annum. (Derived from a discount rate of 9,40% and the expected salary inflation rate of 4,73%)

**General Salary Increase/Future Inflation Assumption:** The general inflation assumption is used to estimate the base rate for determining the rate at which the future salaries will increase. The implied inflation is 5,32% per annum for future inflation. Future salaries are expected to increase in line with salary inflation. We have estimated the market's pricing of inflation by comparing the yields on nominal government bond yield curve with the yields on the real government bond yield curve at the discounted mean term of the liabilities line with inflation. The implied inflation assumption is 4,73% per annum for future inflation. Future salaries can be expected to increase in line with salary inflation. We assumed that future salary inflation will exceed general inflation by 1,0% per annum, i.e. 5,73% p.a.

**Average Retirement Age:** The Municipality has a normal retirement age of 65. It has been assumed that all in-service members will retire at age 63, which makes an allowance for expected rates of early and ill-health retirement. We have retained the assumed average retirement age of 63 for all employees which is consistent with the previous valuation. It should however be noted that by assuming a normal retirement age of 63 there is an implicit assumption that service stops accruing at age 63.

### 15. Debtors with credit balances

Current portion	13 510 180	17 243 977
-----------------	------------	------------

### 16. Payables from exchange transactions

Trade payables	7 404 007	14 269 421
Retentions	7 896 156	5 357 163
Other creditors	2 369 498	1 431 200
Accrued leave pay	4 427 238	3 833 660
Accrued bonus	898 631	734 301
	<b>22 995 530</b>	<b>25 625 745</b>

### 17. Revenue

Rental of facilities and equipment	1 245 573	1 210 935
Interest received (trading)	1 395 548	966 357
Other income	1 980 362	373 641
Interest received - investment	1 831 007	3 074 147
Property rates	34 483 977	27 049 540
Government grants & subsidies	159 882 151	162 308 757
	<b>200 818 618</b>	<b>194 983 377</b>

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

Rental of facilities and equipment	1 245 573	1 210 935
Interest received (trading)	1 395 548	966 357
Other income	1 980 362	373 641
Interest received - investment	1 831 007	3 074 147
	<b>6 452 490</b>	<b>5 625 080</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>17. Revenue (continued)</b>		
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	34 483 977	27 049 540
<b>Transfer revenue</b>		
Government grants & subsidies	159 882 151	162 308 757
	<b>194 366 128</b>	<b>189 358 297</b>
<b>18. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	1 209 115	1 125 781
Rental of Halls and Sports Facilities	36 458	85 154
	<b>1 245 573</b>	<b>1 210 935</b>
<b>19. Other revenue</b>		
Other income - (rollup)	1 980 362	373 641
<b>20. Other income</b>		
Sundry income	18 947	23 612
Tender documents	81 004	125 633
Insurance claims received	1 880 411	224 396
	<b>1 980 362</b>	<b>373 641</b>
<b>21. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	1 082 594	1 859 399
Interest received - call account investments	748 413	1 214 748
	<b>1 831 007</b>	<b>3 074 147</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>22. Property rates</b>		
<b>Rates received</b>		
Residential	106 374	126 444
Commercial	99 900	388 836
State	128 642 599	88 444 377
Small holdings and farms	9 703 785	6 482 118
Public Benefit Organisations	1 101	-
Public Service Infrastructure	1 490	-
Communal land	11 371 273	-
Vacant land	10 560	-
Less: Income forgone	(115 453 105)	(68 392 235)
	<b>34 483 977</b>	<b>27 049 540</b>

### Valuations

Residential	24 574 000	21 074 000
Commercial	9 990 000	32 103 010
State	3 552 037 000	3 122 998 100
Municipal, Churches, Multiple Use Land	115 433 000	-
Small holdings and farms	6 469 190 000	4 380 021 500
Public Benefit Organisations	300 000	-
Public Service Infrastructure	414 000	-
Communal land	314 590 000	-
Vacant land	1 820 000	-
	<b>10 488 348 000</b>	<b>7 556 196 610</b>

Valuations on land and buildings are performed every four years. The last general valuation came into effect on 1 July 2019. Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rate tariffs are applied to properties as per property classification/category to determine assessment rates. Rebates of 85% are granted to farm property owners. Rates are levied on an annual basis on property owners.

Rates are levied on an annual basis with the final date of payment being the end of each financial year. Rates will be subject to a discount of 5% if paid on or before 30 September of each year.

The new general valuation will be implemented on 01 July 2024.

### 23. Grants and subsidies paid

#### Other subsidies

SMME Development	103 300	46 790
Goat Breeding Project	2 913 941	1 986 458
Disaster Management	516 077	149 049
	<b>3 533 318</b>	<b>2 182 297</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 24. Government grants and subsidies

#### Operating grants

Equitable share	113 082 000	109 062 000
Financial Management Grant	3 080 000	2 424 730
Expanded Public Works Programme Grant	2 513 000	2 639 000
Local Government Seta Grant	470 952	86 403
Department of Sports, Arts and Culture Library Grant	900 199	732 699
Municipal Disaster Management Grant	268 000	-
	<b>120 314 151</b>	<b>114 944 832</b>

#### Capital grants

Municipal Infrastructure Grant	39 568 000	42 363 925
Department of Small Business Development Grant	-	5 000 000
	<b>39 568 000</b>	<b>47 363 925</b>
	<b>159 882 151</b>	<b>162 308 757</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	46 800 151	53 246 757
Unconditional grants received	113 082 000	109 062 000
	<b>159 882 151</b>	<b>162 308 757</b>

#### Equitable Share

The grant is used to fund the operations of the municipality in accordance with the approved MTREF budget.

#### Financial Management Grant

Balance unspent at beginning of year	721 270	250 688
Current-year receipts	3 080 000	3 146 000
Conditions met - transferred to revenue	(3 080 000)	(2 424 730)
Repayments of unspent grants	(721 270)	(250 688)
	-	<b>721 270</b>

Conditions still to be met - remain liabilities (see note 13).

The grant is mainly used for supporting reforms in financial management by building capacity in the municipality to implement the MFMA and progressive financial reporting.

#### Expanded Public Works Programme Grant

Balance unspent at beginning of year	-	-
Current-year receipts	2 513 000	2 639 000
Conditions met - transferred to revenue	(2 513 000)	(2 639 000)
	-	-

Conditions still to be met - remain liabilities (see note 13).

The grant was used by municipality to expand work creation efforts through the use of labour intensive delivery methods in the following identified focus areas, in compliance with the Expanded Public Works Programme Guidelines: road maintenance and the maintenance of buildings; low traffic volume roads and rural roads; other economic and social infrastructure; tourism and cultural industries; and sustainable land based livelihoods.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>24. Government grants and subsidies (continued)</b>		
<b>Local Government Seta Grant</b>		
Balance unspent at beginning of year	-	-
Current-year receipts	470 952	86 403
Conditions met - transferred to revenue	(470 952)	(86 403)
	-	-

Conditions still to be met - remain liabilities (see note 13).

This grant is used for skills development within the Kagisano Molopo Local Municipality.

### Department of Sports, Arts and Culture Library Grant

Balance unspent at beginning of year	900 199	899 898
Current-year receipts	-	733 000
Conditions met - transferred to revenue	(900 199)	(732 699)
	-	<b>900 199</b>

Conditions still to be met - remain liabilities (see note 13).

This grant is mainly used in assisting the municipality with services offered at public libraries. The services covers capacitating the municipality with human capital and computer hardware/software.

### Municipal Infrastructure Grant

Balance unspent at beginning of year	230 201	14 062 437
Current-year receipts	39 568 000	29 521 000
Conditions met - transferred to revenue	(39 568 000)	(42 363 925)
Repayments of unspent grants	(230 201)	(989 311)
	-	<b>230 201</b>

Conditions still to be met - remain liabilities (see note 13).

The grant was utilised to fund infrastructure related projects (mainly as part of the service delivery). Capitalised projects funded by this grant are included in property, plant and equipment whilst the unspent portion of the grant is included as current liabilities.

### Municipal Disaster Management Grant

Balance unspent at beginning of year	-	-
Current-year receipts	268 000	-
Conditions met - transferred to revenue	(268 000)	-
	-	-

Conditions still to be met - remain liabilities (see note 13).

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

### Department of Small Business Development Grant

Balance unspent at beginning of year	-	-
Current-year receipts	-	5 000 000
Conditions met - transferred to revenue	-	(5 000 000)
	-	-

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

Figures in Rand

2020

2019

---

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

Conditions still to be met - remain liabilities (see note 13).

The grant was received from Department of Small Business Development. The Municipality utilised the grant to erect hawkers stands for Small to Medium Enterprises within the municipality.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>25. Employee related costs</b>		
Basic salary	28 070 782	23 857 793
Bonus	1 617 867	1 343 655
Company contributions	4 559 689	4 063 014
Travel, motor car, accommodation, subsistence and other allowances	2 614 967	2 870 836
Long-service awards	208 425	317 100
Housing benefits and allowances	1 289 104	90 677
Other employee related costs	807 692	673 644
	<b>39 168 526</b>	<b>33 216 719</b>

### Remuneration of municipal manager

Annual Remuneration	1 252 868	666 347
Travel, motor car, accommodation, subsistence and other allowances	95 636	337 665
Contributions to UIF, Medical and Pension Funds	12 198	12 227
	<b>1 360 702</b>	<b>1 016 239</b>

Included in above summary of Employee Related Costs.

### Remuneration of chief financial officer

Annual Remuneration	547 336	552 981
Travel, motor car, accommodation, subsistence and other allowances	-	192 327
Contributions to UIF, Medical and Pension Funds	744	8 649
Acting Allowance	69 307	20 874
	<b>617 387</b>	<b>774 831</b>

Included in above summary of Employee Related Costs.

The chief financial officer was vacant from 1 July 2019 until 31 January 2020. During this period the position was filled by municipal staff in an acting capacity. The position was filled on 1 February 2020.

The chief financial officer was vacant from 1 May 2019 and is still vacant as at 30 June 2019. During this period the position was filled by municipal staff in an acting capacity.

### Remuneration of corporate services

Annual Remuneration	774 996	663 578
Travel, motor car, accommodation, subsistence and other allowances	230 792	230 792
Contributions to UIF, Medical and Pension Funds	1 785	8 506
	<b>1 007 573</b>	<b>902 876</b>

Included in above summary of Employee Related Costs.

### Remuneration of the community services director

Annual Remuneration	774 996	663 578
Travel, motor car, accommodation, subsistence and other allowances	234 293	230 793
Contributions to UIF, Medical and Pension Funds	1 785	10 619
	<b>1 011 074</b>	<b>904 990</b>

Included in above summary of Employee Related Costs.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>26. Remuneration of councillors</b>		
Mayor	732 192	693 798
Speaker	566 026	546 542
Mayoral Exective Committee Members	2 336 874	5 418 785
Councillors	5 560 511	2 184 022
Councillors' pension contribution	1 318 775	1 248 373
Councillors' allowances	1 203 100	1 169 600
	<b>11 717 478</b>	<b>11 261 120</b>

### In-kind benefits

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

The Mayor and the Speaker each have the use of separate Council owned vehicles for official duties.

### 27. Depreciation and amortisation

Property, plant and equipment	23 565 063	23 790 423
Intangible assets	213 157	171 449
	<b>23 778 220</b>	<b>23 961 872</b>

### 28. Impairment of assets

#### Impairments

Property, plant and equipment	7 573 219	3 804 156
Assets not found at year end during the physical asset verification and write downs due to assessment of carrying amounts against value in use and physical conditions.		

### 29. Finance costs

Trade and other payables	58 462	209 816
Finance leases	329 535	82 474
	<b>387 997</b>	<b>292 290</b>

### 30. Debt impairment

Contributions to debt impairment provision	5 460 491	5 672 147
--	-----------	-----------

The movement in bad debts relate to an increase in the provision of impairment of receivables.

### 31. Contracted services

Information Technology Services	4 528 751	4 177 343
Security Services	12 354 323	12 274 373
Valuation Roll and Fleet Management Services	965 392	2 488 789
Performance Management Services	2 901 549	2 973 070
Accounting and Financial Management Advisory	15 540 903	12 173 482
	<b>36 290 918</b>	<b>34 087 057</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>32. General expenses</b>		
Advertising	262 818	231 235
Auditors remuneration	3 611 309	2 770 345
Bank charges	123 946	137 925
Cleaning	68 300	66 850
Commission paid	39 048	-
Software expenses	1 042 650	783 221
Disaster relief programs	787 805	222 550
Consumables	20 000	51 540
Legal Fees	5 342 776	7 034 469
Entertainment - Councillors	5 920	52 749
Maintenance of illegal dumping site	1 650 379	348 561
Rental	7 000	7 000
Insurance	1 981 971	1 569 149
Bursaries	940 704	1 009 664
Conferences and seminars	-	18 000
Employee assistance and wellness	229 050	179 249
Telephone	1 538 540	1 011 415
Workmanship compensation	210 506	137 072
Mayoral outreach programmes	431 750	356 340
Membership Fees - SALGA	543 811	498 750
Vehicle expenses - Licenses	9 630	11 883
Vehicle: Fuel and oil	4 188 958	4 723 217
Printing and stationery	480 277	503 323
Promotions	3 512 350	3 259 994
Protective clothing	43 450	348 312
Refreshments and meals	307 193	493 257
Training	1 490 002	2 160 401
Travel - local	-	-
Small tools and equipment	266 469	469 400
Electricity	7 288 059	2 846 248
Travel and subsistence - Officials	3 614 951	3 625 717
Licences and Permits	15 244	14 185
Expanded Public Works Programme	6 650 589	7 495 639
Travel and subsistence: Councillors	1 498 971	956 972
Pauper Burials	126 351	112 072
Expense 8	432 670	384 330
Grade 12 Excellency Awards	-	463 536
Youth Women Elderly and Other Support Programmes	3 978 300	7 605 363
Ward Participation Support	5 382 131	5 307 120
	<b>58 123 878</b>	<b>57 267 053</b>
<b>33. Fair value adjustments</b>		
Investment property (Fair value model)	-	(9 267 000)
<b>34. Auditors' remuneration</b>		
Fees	3 611 309	2 770 345
<b>35. Taxation</b>		
<b>Reconciliation of the tax expense</b>		
Reconciliation between applicable tax rate and average effective tax rate.		
Applicable tax rate	28.00 %	28.00 %

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>36. Operating surplus</b>		
Operating surplus for the year is stated after accounting for the following:		
Loss on sale of property, plant and equipment	(383 499)	(17 225 012)
Impairment on property, plant and equipment	7 573 219	3 804 156
Amortisation on intangible assets	213 157	171 449
Depreciation on property, plant and equipment	23 565 063	23 790 423
Employee costs	50 886 004	44 477 839
<b>37. Cash generated from operations</b>		
Surplus (deficit)	12 718 680	(5 477 509)
<b>Adjustments for:</b>		
Depreciation and amortisation	23 778 220	23 961 872
Gain on sale of assets and liabilities	383 499	17 225 012
Fair value adjustments	-	9 267 000
Finance costs - Finance leases	329 535	82 474
Impairment deficit	7 573 219	3 804 156
Debt impairment	5 460 491	5 672 147
Movements in provisions	1 740 327	538 481
Other non-cash items	(15 003)	-
<b>Changes in working capital:</b>		
Receivables from exchange transactions	124 662	(440 327)
Consumer debtors	(5 460 491)	(5 672 147)
Other receivables from non-exchange transactions	(15 501 736)	(7 292 994)
Payables from exchange transactions	(2 630 215)	7 963 972
VAT	(4 673 283)	(4 385 775)
Unspent conditional grants and receipts	(1 851 670)	(13 361 353)
Debtors with credit balances	(3 839 909)	17 350 725
	<b>18 136 326</b>	<b>49 235 734</b>

## 38. Financial instruments disclosure

### Categories of financial instruments

#### 2020

#### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	45 827	45 827
Other receivables from non-exchange transactions	-	42 822 468	42 822 468
Cash and cash equivalents	746 891	-	746 891
	<b>746 891</b>	<b>42 868 295</b>	<b>43 615 186</b>

#### Financial liabilities

	At fair value	At amortised cost	Total
Trade and other payables from exchange transactions	-	36 506 346	36 506 346
Finance lease obligation	3 329 857	-	3 329 857
	<b>3 329 857</b>	<b>36 506 346</b>	<b>39 836 203</b>

#### 2019

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 38. Financial instruments disclosure (continued)

#### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	193 446	193 446
Other receivables from non-exchange transactions	-	18 881 109	18 881 109
Cash and cash equivalents	38 515 046	-	38 515 046
	<b>38 515 046</b>	<b>19 074 555</b>	<b>57 589 601</b>

#### Financial liabilities

	At fair value	At amortised cost	Total
Trade and other payables from exchange transactions	-	45 829 646	45 829 646
Finance lease obligation	108 268	-	108 268
	<b>108 268</b>	<b>45 829 646</b>	<b>45 937 914</b>

### 39. Commitments

#### Authorised capital expenditure

##### Approved and contracted for

• Property, plant and equipment	17 038 850	6 496 080
---------------------------------	------------	-----------

##### Total capital commitments

Already contracted for but not provided for	17 038 850	6 496 080
---	------------	-----------

#### Total commitments

##### Total commitments

Authorised capital expenditure	17 038 850	6 496 080
--------------------------------	------------	-----------

The prior period error adjustments on commitments approved and already contracted for relate to R11 935 152 of completed projects transferred to property plant and equipment but not deducted from commitments in the prior year.

An amount of R15 397 290 in the prior year relating to Vragas sports facility construction was omitted from the prior year commitments listing.

An amount of R 1 461 362 relating to retention for the work already done was also accounted for to reduce commitment since the amount was accounted for as recognised liability.

The correction of these errors does not affect amounts disclosed in property plant and equipment as these were correctly accounted for on the face of the annual financial statements.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>40. Contingencies</b>		
<b>Contingent liabilities</b>		
<b>MH Office Machines and Stationers</b>		
This entity instituted legal action against the Municipality for the recovery of an amount of R69 638 allegedly due to the delivery of goods and rendering of services which includes the damaging of photocopy machines which was not returned to the applicant. The matter was settled and finalised in the 2019/20 financial year. The municipality has to pay MH Office and Stationers R40 000. Parties to pay its own costs.	-	69 638
<b>Morofa Moloto and O Ntsimane</b> The plaintiffs instituted legal proceedings against the municipality for unfair suspension. The matter with the CCMA for unfair labour practice. An award was issued in Respondent's (Kagisano Molopo local Municipalities favor wherein the matter file was closed. The Applicant took the matter on Review, the application awaiting a notice of set down from the Registrar of the Court.	600 000	-
<b>KMLM/O Ntsimane</b> Labour court case	300	-
	<b>600 300</b>	<b>69 638</b>

### Contingent assets

<b>Mr K Dijwe</b>		
Mr K Dijwe instituted an action against the municipality for the recovery of damages that he allegedly suffered as a result of the alleged malicious prosecution, including claims on interest and costs. An order of absolution from the instance was given by the High Court in Mmabatho whereafter he applied for leave to appeal such order. The application for leave to appeal was denied, whereupon Mr Dijwe successfully petitioned the Appeal Court for such leave. The likelihood is that the appeal will succeed in favour of the plaintiff. In 2016/2017 the plaintiff failed to pursue an appeal of the judgement in favour of the Municipality. The judgement of absolution from the instance with costs therefore stands. There is a likelihood that the Municipality may proceed with attempts at recovering the cost from Mr Dijwe.	-	23 000
<b>Realkit Investments</b>		
The municipality instituted legal action against the Realkit Investments for constructing a building on the premises of the municipality during 2016/17 financial year. The right to occupy the land was given by the Ganyesa communal authority where the Ganyesa taxi rank is currently situated. The municipality is of the opinion that the construction of the building was done without the consent of the municipality. The matter was settled in favour of the municipality. The actual financial exposure could not be determined at year-end.	-	130 000
<b>Kwane Capital (Pty) Ltd</b>		
A letter of demand was submitted to Kwane Capital(Pty) Ltd ("Kwane") on the 9th of August 2017 affording them 30 days to deliver the outstanding items no response was received, instructions were given to Counsel on the 21st of September 2017 to draft particulars of claim with a view to instituting legal proceedings. A Letter was received from Kwane's attorneys on the 4th of October 2017 containing certain representations. On the 17th of October 2017 Kwane's attorneys were notified that their representations were not acceptable and demanding re-payment of the amount paid over to them.	-	-
<b>NW Premier and MEC Local government</b>		

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>40. Contingencies (continued)</b>		
The municipality instituted legal proceedings against the offices of the Premier and MEC Local government for putting the Municipality under administration per section 139 of the MFMA. Initial judgement was in favour of the Municipality, the MEC and the Premier are however appealing the decision. Contingent asset relate to legal fees recoverable.	400 000	-
	<b>400 000</b>	<b>153 000</b>

### 41. Related parties

#### Relationships

Accounting Officer

Dr Ruth Segomotsi Mompati District Municipality

Refer to accounting officer's report note

Provides internal audit and risk management services. These are regarded as services in-kind and the monetary value of these services could not be determined.

Close family member of key management

Declarations of interest was circulated to all employees and a CIPC search was performed.

#### Related party balances

]The following related party transactions occurred between the municipality and its key management, including the audit committee. All related party transactions were at arms length.

#### Amounts included in Trade receivable (Trade Payable) regarding related parties

G Seeletso (Family member) - Gopola Gorata Projects - (10 400)

[State terms and conditions, including whether they are secured, and the nature of the consideration to be provided in settlement]

[State details of any guarantees given or received]

#### Related party transactions

##### Purchases from (sales to) related parties

MM Seeletso (Family member) (Gopola Gorata Projects)	-	59 160
L Makwati (Ndudza cleaning projects)	-	1 501 290
RS Modise (Family member) (Ratang Tiro Trading Pty Ltd)	-	130 050
MM Seeletso (Family member) (This That and The Rest Events Pty Ltd)	-	58 850

#### Remuneration of management

##### Councillors

Refer to note "Remuneration of councillors"

##### Senior management

\*Refer to note "Employee related costs"

### 42. Prior period errors

The correction of prior period errors has been done in terms of GRAP 3, paragraph 44, and subject to paragraph 45, whereby material prior period errors have been corrected retrospectively in the first set of financial statements authorised for issue after the discovery of the errors, by restating the comparative amounts for the prior period(s) presented in which the error occurred, or if the error occurred before the earliest prior period presented, restating the opening balances of assets, liabilities and net assets for the earliest prior period presented.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 42. Prior period errors (continued)

#### Statement of financial position

##### Receivables from non-exchange transactions

Receivables from non-exchange transactions were decreased with a net amount of R138 335 in the prior year. The correction relates to the adjustment of the SALGA membership fees which were incorrectly recorded (-R122 500). An amount of R15 834.65 relating to incidental claims which were incorrectly allocated as receivable.

Prepayments were reclassified from receivables from non-exchange transactions to receivables from exchange transactions with an amount of R 367 500.

##### Receivables from exchange transactions.

Prepayments were reclassified from receivables from non-exchange transactions to receivables from exchange transactions with an amount of R 367 500.

##### VAT receivable

VAT receivables were decreased with a net amount of R 534 117 in the prior year, which relates to the correction of creditors where the VAT was not correctly accounted for.

##### Investment property

The increase in Investment Property relates to a property that was erroneously included as community assets in the prior year instead of investment property amounting to R772 637.

##### Property, plant and equipment

Property, plant and equipment were increased with a net increase of R 395 118 in the prior year, due to correction made as a result of the full review of the fixed asset register.

##### Payables from exchange transactions

Payables from exchange transactions were decreased with a net amount of R15 682 947 in the prior year. This is as a result of correction of errors netting to -R2 853 176 and reclassification of -R12 829 771.

The correction relate to accruals ward and EPWP stipends as well as subsistence accruals of an amount of R1 454 593 which were incorrectly accounted for in the prior year. Trade creditors were overstated with an amount of R814 724, which relates to trade creditors not correctly accounted for in the prior year. Accruals of R843 400 relating to cemetery projects that were not accounted in the prior year. Retentions were adjusted by -R2 418 355, due to incorrect calculations of retentions in the prior years.

Other creditors, relating to debtors with credit balances were reclassified from payables from exchange transactions to debtors with credit balances as a separately disclosed item for an amount of R 17 350 725.

##### Provisions - current

Provisions - current liabilities, were decreased with a net amount of R 19 961 980. This is as a result of correction of errors -R 35 942 and reclassification of R 19 927 038.

The decrease of R34 942 relate to provision of long-service awards which were not correctly classified between the current and the non-current portion of the long-service awards provision.

The decrease in Provisions for landfill site rehabilitation of R 12 829 771 in the prior year were reclassified from current liabilities to non-current liabilities. This is as a result that the municipality would not realise the rehabilitation of the landfill sites within the next 12 months, as the issue regarding the powers and functions surrounding the landfill sites are resolved.

##### Provisions - non current

Provisions were increased with a net amount of R 19 961 980. This is as a result of correction of errors -R 35 942 and reclassification of R 19 927 038

The increase of R34 942 relate to provision of long-service awards which were not correctly classified between the current and the non-current portion of the long-service awards provision.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 42. Prior period errors (continued)

The increase in Provisions for landfill site rehabilitation of R 19 961 980 in the prior year were reclassified from current liabilities to non-current liabilities. This is as a result that the municipality would not realise the rehabilitation of the landfill sites within the next 12 months, as the issue regarding the powers and functions surrounding the landfill sites are resolved.

### Debtors with credit balances

Other creditors, relating to debtors with credit balances were reclassified from payables from exchange transactions to debtors with credit balances as a separately disclosed item for an amount of R 17 350 725.

### Accumulated surplus

Accumulated surplus were increased with a net amount of R3 348 479. This is due to the corrections made errors identified in the prior years.

### Statement of financial performance

#### Rental of facilities and equipment

The increase of R85 154 in Rental of facilities relate to the reclassifying of hiring of municipal halls and sports facilities vote from other income to rental of facilities, in line with mSCOA classification.

#### Other income

The decrease of R85 154 in Other income relate to the reclassifying of hiring of municipal halls and sports facilities vote from other income to rental of facilities, in line with mSCOA classification.

#### Employee related costs

Employee related costs were reduced with a net amount of R 290 367 relate to the reclassifying of skills development levy company contributions to general expenditure, in line with mSCOA classification.

#### Remuneration of councillors

The decrease of R93 964 in the remuneration of councillors relate to the reclassifying of skills development levy company contributions to general expenditure, in line with mSCOA classification.

#### Depreciation and amortisation

The decrease in depreciation and amortisation resulted in a net amount of R 1 482 119. This is as a result of corrections made on property, plant and equipment where depreciation in the prior year were effected.

#### Impairment loss/ Reversal of impairments

The increase in impairment of resulted in a net amount of R 48 435. This is as a result of corrections made on property, plant and equipment where impairment in the prior year were adjusted.

#### General Expenses

General expenses were increased with a net amount of R447 138 in the prior year. The amount consist of aa reclassification of R 384 331 between employee related cost, remuneration of councillors and general expenditure as well as the correction of errors that was a decrease for an amount of R 831 469. The correction relate to accruals ward and EPWP stipends as well as subsistence accruals of an amount of R1 454 593 which were incorrectly accounted for in the prior year. The SALGA membership fees which were incorrectly recorded resulted in the increase in general expenses with the amount of R122 500. Correction relating to adjustment on general expenditure which were incorrectly captured of -R745 627

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 42. Prior period errors (continued)

#### Loss on disposal of assets and liabilities

The increase in loss on disposal of asset and liabilities resulted in a net amount of R 819 219. This is as a result of corrections made on property, plant and equipment due to assets found in the current year that were not recorded as not found in the prior year.

#### Disclosure notes

#### Commitments

Adjustment of R 1 461 362 made to opening balance of commitments is due to retention monies that are recognised as property, plant and equipment as well as trade and other payables not deducted from the contract value.

#### Irregular expenditure

Irregular expenditure were restated as a result of addressing prior year audit findings. The entire expenditure population was revisited to identify possible irregular expenditure. The process resulted in a decrease of R 11 642 235.

The correction of the error(s) results in adjustments is disclosed in note 49.

#### Commitments

Opening balance	7 957 442	-
Adjustments made	(1 461 362)	-
<b>Restated opening balance</b>	<b>6 496 080</b>	<b>-</b>

Adjustment of R 1 461 362 made to opening balance of commitments is due to retention monies that are recognised as property, plant and equipment as well as trade and other payables not deducted from the contract value.

#### Irregular expenditure

Opening balance	450 394 489	-
Adjustments made	(11 642 235)	-
<b>Restated opening balance</b>	<b>438 752 254</b>	<b>-</b>

Irregular expenditure were restated as a result of addressing prior year audit findings. The entire expenditure population was revisited to identify possible irregular expenditure.

### 43. 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-year adjustments:

#### Statement of financial position

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 43. Prior-year adjustments (continued)

#### 2019

	Note	As previously reported	Correction of error	Re-classification	Restated
<b>Current assets</b>					
Receivables from non-exchange transactions		18 881 109	(138 334)	(367 500)	18 375 275
VAT receivable		8 831 614	(534 117)	-	8 297 497
Receivables from exchange transactions		193 446	-	367 500	560 946
<b>Non-current assets</b>					
Investment property		43 260 729	772 637	-	44 033 366
Property, plant and equipment		477 024 788	395 118	-	477 419 906
<b>Current liabilities</b>					
Payables from exchange transactions		45 829 646	(2 853 176)	(17 350 725)	25 625 745
Provisions		20 073 135	(34 942)	(19 927 038)	111 155
Debtors with credit balances		-	-	17 350 725	17 350 725
<b>Non-current liabilities</b>					
Provisions		1 191 843	34 942	19 927 038	21 153 823
<b>Net Assets</b>					
Accumulated surplus		518 195 048	3 348 480	-	521 543 528
		<b>1 133 481 358</b>	<b>990 608</b>	<b>-</b>	<b>1 134 471 966</b>

### Statement of financial performance

#### 2019

	Note	As previously reported	Correction of error	Re-classification	Restated
<b>Revenue from exchange transactions</b>					
Rental of facilities and equipment		1 125 781	-	85 154	1 210 935
Other income		458 796	-	(85 154)	373 642
<b>Current expenditure</b>					
Employee related cost		33 507 086	-	(290 367)	33 216 719
Remuneration of councillors		11 355 084	-	(93 964)	11 261 120
Depreciation and amortisation		25 443 991	(1 482 119)	-	23 961 872
Impairment loss/reversal of impairment		3 755 721	48 435	-	3 804 156
Loss on disposal of assets and liabilities		18 044 231	(819 219)	-	17 225 012
Contracted services		-	-	-	-
General expenditure		57 714 191	(831 469)	384 331	57 267 053
<b>Surplus for the year</b>		<b>151 404 881</b>	<b>(3 084 372)</b>	<b>-</b>	<b>148 320 509</b>

### 44. Comparative figures

Certain comparative figures have been reclassified, refer to prior period adjustment note 37.

### 45. Risk management

#### 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.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 45. Risk management (continued)

#### Credit risk

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

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

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

Financial instrument	2020	2019
Current Account (Primary Bank Account) - ABSA Acc. No 407801332	362 094	20 527 537
Other short-term investments	384 771	17 987 483
Receivables	34 313 295	18 936 221

These balances represent the maximum exposure to credit risk.

#### Market risk

##### Interest rate risk

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

##### Cash flow interest rate risk

Financial instrument	Current interest rate	Due in less than a year	Due in one to two years	Due in two to three years	Due in three to four years	Due after five years
Trade and other receivables from non-exchange transactions - normal credit terms	2.00 %	52 255 398	-	-	-	-
Trade and other receivables from exchange transactions - normal credit terms	2.00 %	7 437 052	-	-	-	-
Cash in current banking institutions	- %	746 891	-	-	-	-
Trade and other payables - normal credit terms	- %	22 995 530	-	-	-	-

##### Fair value interest rate risk

### 46. Going concern

We draw attention to the fact that at 30 June 2020, the municipality had an accumulated surplus (deficit) of R 534 262 208 and that the entity's total assets exceed its liabilities by R 534 262 208.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the government will continue to allocate funding for the ongoing operations for the municipality.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand	2020	2019
<b>47. Unauthorised expenditure</b>		
Opening balance as previously reported	224 091 357	165 882 234
Correction of prior period error	-	-
<b>Opening balance as restated</b>	<b>224 091 357</b>	<b>165 882 234</b>
Add: Expenditure identified - current	12 336 229	58 209 123
Add: Expenditure identified - prior period	-	-
Less: Approved/condoned/authorised by council	-	-
<b>Closing balance</b>	<b>236 427 586</b>	<b>224 091 357</b>

Unauthorised expenditure is due to the overspending of the total amount appropriated for a vote in the approved budget.

### Disciplinary steps taken/criminal proceedings

No criminal or disciplinary steps were taken after investigation process.

### Recoverability of unauthorised expenditure

No material losses have been recovered.

### 48. Fruitless and wasteful expenditure

Opening balance as previously reported	2 273 858	1 984 163
Correction of prior period error	-	-
<b>Opening balance as restated</b>	<b>2 273 858</b>	<b>1 984 163</b>
Add: Expenditure identified - current	58 462	289 695
Add: Expenditure identified - prior period	-	-
Less: Approved/condoned/authorised by council	-	-
<b>Closing balance</b>	<b>2 332 320</b>	<b>2 273 858</b>

The fruitless and wasteful expenditure mainly relates to penalties and interest charged on overdue accounts. Investigations are ongoing.

i) No criminal or disciplinary steps were taken after investigation process.

ii) No material losses have been recovered.

### 49. Irregular expenditure

Opening balance as previously reported	438 752 254	391 153 520
Correction of prior period error:Less:	-	-
<b>Opening balance as restated</b>	<b>438 752 254</b>	<b>391 153 520</b>
Add: Irregular Expenditure - current	15 714 273	6 119 201
Add: Irregular Expenditure - prior period	21 760 483	41 479 533
Less: Approved/condoned/authorised by council	-	-
<b>Closing balance</b>	<b>476 227 010</b>	<b>438 752 254</b>

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 49. Irregular expenditure (continued)

Incidents/cases identified in the current year include those listed below:

	<b>Disciplinary steps taken/criminal proceedings</b>	
	No criminal or disciplinary steps were taken, process is under investigation.	
SCM Reg 21 - Evaluation Criteria inconsistently applied	17 515 102	-
SCM Reg 5 - Extention beyond threshold	3 027 622	-
SCM reg 19 (1) (a), MFMA 112 and SCM reg 21 (b) - No Tendering Process Followed	9 041 705	-
SCM Regulation 32 - Transversal process not adequately followed	2 030 000	-
SCM reg. 12 - Process not folowed for Quotation procurements	3 992 064	-
	<b>35 606 493</b>	<b>-</b>

### 50. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net surplus (deficit) per the statement of financial performance	12 718 680	(5 477 509)
--	------------	-------------

### 51. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

#### Operating activities

Actual amount as presented in the budget statement	18 136 326	-
--	------------	---

#### Investing activities

Actual amount as presented in the budget statement	(50 934 041)	-
--	--------------	---

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand 2020 2019

### 51. Reconciliation between budget and cash flow statement (continued)

#### Financing activities

Actual amount as presented in the budget statement	(4 970 440)	-
<b>Net cash generated from operating, investing and financing activities</b>	<b>(37 768 155)</b>	<b>-</b>

### 52. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government (SALGA)

Opening balance	-	-
Current year subscription / fee	574 930	500 000
Amount paid - current year	(547 530)	(490 000)
Discount received	(27 400)	(10 000)
	<b>-</b>	<b>-</b>

#### Audit fees

Opening balance	-	-
Current year subscription / fee	4 200 478	3 183 015
Amount paid - current year	(4 179 376)	(3 183 015)
	<b>21 102</b>	<b>-</b>

Audit fees balance include interest levied.

#### PAYE and UIF

Opening balance	(140 446)	(145 445)
Current year subscription / fee	8 387 566	7 178 409
Amount paid - current year	(8 393 378)	(7 376 266)
Amount paid - previous years	-	202 856
Interest levied - current year	812	-
	<b>(145 446)</b>	<b>(140 446)</b>

Overpayment on SARS in the prior years. This amount is reflecting as an receivable in the statement of financial position.

#### Pension and Medical Aid Deductions

Opening balance	(507 434)	(8 495)
Current year subscription / fee	9 781 581	8 714 468
Amount paid - current year	(9 320 503)	(9 204 729)
Amount paid - previous years	-	(8 678)
	<b>(46 356)</b>	<b>(507 434)</b>

The balance is included in receivables from non-exchange transactions in the statement of financial position.

#### VAT

VAT receivable	12 970 780	8 297 497
----------------	------------	-----------

VAT output payables and VAT input receivables are shown in note .

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

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

---

Figures in Rand

2020

2019

---

### 53. Budget differences

**Material differences between budget and actual amounts**

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 53. Budget differences (continued)

#### STATEMENT OF FINANCIAL PERFORMANCE

##### Revenue

##### Revenue from exchange transactions.

##### A) Rental of facilities and equipment

Several leasees terminated their contracts during the year and other properties were not rented out during the year. The budgeted amount were based on all rental properties expected income. Rental of municipal facilities such as community halls and sports facilities decreased as anticipated as these property were not rented out as result of the national state of disaster and the lockdown restrictions that were imposed on.

##### B) Interest received (trading)

Debtors collection rate decreased on rental of municipal investment property, resulting in the increase in interest charged on outstanding debtors that what was expected.

##### C) Other income

This is due to decrease in the sale of tender documents on planned programmes and projects which could not be advertised as a result of the national state of disaster and the lockdown restrictions that were imposed on.

##### D) Interest received - investment

The delay in the release of the equitable share and capital grant allocation resulted in the withdrawal of funds from call account investments. This resulted in the decrease in interests received on investments.

##### Revenue from non-exchange transactions

##### TAXATION REVENUE

##### E) Property rates

The municipality implemented a new valuation roll in 2019/20 property values properties of rate payers to increase as well as the identification of new properties on the valuation roll, thus resulting in the increase in property rates from the budgeted amount. Supplementary valuation roll was implemented, which contributed to the increase in property rates.

##### F) Government grants & subsidies

Operational budgeting were incorrectly budgeted, as the Local Government SETA grant allocation received were less than budgeted.

##### EXPENDITURE

##### G) Employee related costs

The increase in employee related costs is due to the increase received by section 56 and section 57 managers.

##### H) Remuneration of councillors

The increase is due to the determination and implementation of councillors upper limits.

##### I) Depreciation and amortisation

Depreciation increase from the budgeted amount, due to the additions on assets as well as improper budgeting regarding depreciation and amortisation.

##### J) Impairment loss/ Reversal of impairments

Impairment loss were not budgeted for, however due to the compilation of the fixed asset register, the need to impair was observed hence the increase in impairment.

##### K) Finance costs

The decrease is due to the new finance lease entered into. The interest charged on the finance lease is 10.5%, which increased from the previous year (2016: 10%).

##### L) Debt Impairment

The increase in debt impairment was due to non-payment of services by customers, which was not expected hence it necessitated the impair overdue accounts.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 53. Budget differences (continued)

#### M) Repairs and maintenance

Repairs and maintenance were separately disclosed on the annual financial statements, however it was budgeted under general expenses. This is due to misclassification of expenditure within the budget between general expenses, contracted services and repairs and maintenances.

#### N) Contracted services

The reason for the reduction in contracted services was due to cost cutting in spending on several services. Most of these services were done in-house.

#### O) Transfers and Subsidies

The variance on transfers and subsidies are due to inappropriate budgeting were other expense items as well as transfer and subsidies were classified sd general expenditure.

#### P) General Expenses

The variance on general expenses is due to cost cutting measures as well as the impact of the National State of Disaster on the implementation of programmes within the municipality. Repairs and maintenance and transfers and subsidies were budgeted under general expenditure.

#### Operating (deficit) surplus

#### Q) Loss on disposal of assets and liabilities

The loss of disposal of assets and liabilities were not budgeted for, however due to the compilation of the fixed asset register it was determined that loss on the disposal of assets were realised.

### STATEMENT OF FINANCIAL POSITION

#### Current Assets

#### R) Receivables from exchange transactions

The variance is due to non-payment of rental debtors, which was not expected hence it necessitated to need to impair long overdue accounts.

#### S) Receivables from non-exchange transactions

The variance is due to inappropriate budgeting on receivables. The municipality implemented a new valuation roll in 2019/20 property values properties of rate payers to increase as well as the identification of new properties on the valuation roll, thus resulting in the increase in property rates from the budgeted amount. Supplementary valuation roll was implemented, which contributed to the increase in property rates.

#### T) VAT receivable

VAT receivable is not budget for.

#### U) Cash and cash equivalents

The delay in the release of the equitable share and capital grant allocation resulted in the withdrawal of funds from call account investments. This resulted in the decrease in interests received on investments. The equitable share allocation were not fully paid, R8,5 million is still due to the municipality, resulting in the variance identified.

#### Non-Current Assets

#### V) Investment property

The municipality appointed a professional property valuer to assess the fair value of the investment property, the valuer deemed that the investment properties were fairly valued and therefore did not propose an adjustment to the fair value of the investment properties, hence the decrease in investment property.

#### W) Property, plant and equipment

The variance is to the capitalisation of assets in the new year that was not expected.

#### X) Intangible assets

No new additions on intangible assets made during the 2019/20 financial year, hence the decrease in intangible assets.

# Kagisano-Molopo Local Municipality

(Registration number NW397)

Annual Financial Statements for the year ended 30 June 2020

## Notes to the Annual Financial Statements

Figures in Rand

2020

2019

### 53. Budget differences (continued)

#### Liabilities

#### Current Liabilities

##### Y) Finance lease obligation

The variance is due to inappropriate budgeting. Finance charges are budgeted under the cashflow of the municipal budget reporting regulations template.

##### Z) Payables from exchange transactions

The budgeted amount is on trade payables as per the approved budget. The actual amount relates to all payables from exchange transactions, such as salary accruals, retentions and other creditors.

##### AA) Provisions - current

Provisions are budgeted at a group amount and is not split between current and non-current portion. The increase is due the increase in provision for landfill sites as per the expert's report. The municipality expected the matter of ownership to have been resolved on or by the date of reporting.

##### AB) Debtors with credit balance

This relate to debtors with credit balances as at year-end, which were not budgeted for.

#### Non-Current Liabilities

##### AC) Finance lease obligation

The variance is due to inappropriate budgeting. Finance charges are budgeted under the cashflow of the municipal budget reporting regulations template.

##### AD) Provisions - non current

Provisions are budgeted at a group amount and is not split between current and non-current portion. The increase is due the increase in provision for landfill sites as per the expert's report. The municipality expected the matter of ownership to have been resolved on or by the date of reporting.

##### AE) Accumulated surplus

The variance on accumulated surplus is due to prior year errors, misstatements and other corrections.