



**Ngaka Modiri Molema District Municipality**  
Annual financial statements  
for the year ended 30 June 2021

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## General Information

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Legal form of entity	District Municipality DC38
Nature of business and principal activities	Water and Sanitation Service Authority, Fire Fighting and Municipal Health Services
<b>Mayoral Committee</b>	
Executive Mayor	Hon. Tshepo Makolomakwa
Speaker	Cllr. Yoliswa Sechoaro
Single Whip	Cllr. Itumeleng Lethoko
Mayoral Committee	Cllr. Pricilla Kwenaitse Cllr. Molefe Morutse Cllr. Mathapelo Tlhako Cllr. Segametsi Ntladi ( <b>Resigned</b> ) Cllr. Gilbert Mathakathaka Cllr. Phemelo Malebelela
MPAC Chairperson	Cllr. Oabetswe Tselapedi( <b>Deceased</b> )
Councillors	Cllr. Thapelo Mvudisi Cllr. Yusuf Laher Cllr. Gloria Leepo Cllr. Edward Mothibedi ( <b>Resigned</b> ) Cllr. Tshiamo Kenalemogwe Cllr. Daniel Motlathledi Cllr. Molefi Moreo Cllr. Gosiamo Seatsholo Cllr. Thamsanga Mabovu Cllr. Klass Melamu Cllr. Israel Moloantoa Cllr. Elizabeth Makalela Cllr. Ramalepa Phetwe Cllr. Tebatso Maibi Cllr. Piet Miga Cllr. Motlhanka Moreo ( <b>Resigned</b> ) Cllr. Joseph Mekgwa Cllr. Maria Tsolo-Mulosi Cllr. Mompoti Makalela Cllr. Lerato Selebogo Cllr. Mbahare Kekana Cllr. Gaelebale Williams Cllr. Matlhomola Jafta Cllr. Israel Modibetsane Cllr. Daddy Tshabalala Cllr. Thabo Selepe Cllr. Thapelo Mothibi Cllr. Maria Ndlovu Cllr. Padi Molefe Cllr. Matshidiso Moreo Cllr. Nkagisang Mokoena Cllr. Abram Matebele Cllr. Julius Mokoneng

# **Ngaka Modiri Molema District Municipality**

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## **General Information**

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<b>Grading of local authority</b>	Category C
<b>Accounting Officer</b>	OA Losaba
<b>Chief Finance Officer (CFO)</b>	SS Mphato
<b>Registered office</b>	Cnr Carrington Street and 1st Avenue Industrial Site Mafikeng 2745
<b>Postal address</b>	Private Bag X2165 Mafikeng 2745
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Auditor General of South Africa

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Index

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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 - 13
Appropriation Statement	14
Accounting Policies	15 - 45
Notes to the Annual Financial Statements	46 - 98

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)

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Officer's Responsibilities and Approval

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

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

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

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

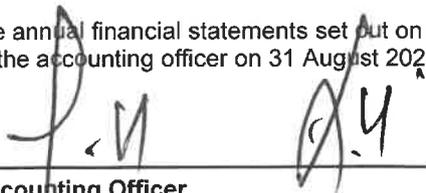
The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2022 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 municipality is wholly dependent on government grants for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The annual financial statements set out on page 7 - 10, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on its behalf by:



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Accounting Officer  
OA Losaba

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30 June 2021.

### 1. 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 and do not in our opinion require any further comment.

Net surplus of the municipality was 30 June 2021 187 695 027 (2020: surplus 30 June 2021 21 552 235).

### 2. Going concern

Ngaka Modiri Molema District Municipality earned a surplus of R187 694 757 (2020: R21 552 235) during the period ended 30 June 2021 and as at that date, the municipality had an accumulated surplus of R5 459 861 791 (2020: R5 272 167 034)

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

### 3. Subsequent events

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

### 4. 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.

### 5. 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 2017. 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 three monthly basis.

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Officer's Report

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### Audit and risk committee

In terms of Section 166 of the Municipal Finance Management Act, The Municipality must appoint members of the Audit Committee. The Municipality was satisfied that the Audit Committee of the municipality then, constituted by the non-executive directors was properly constituted to fulfil its role and advise the council of its responsibilities as provided in Section 166 of the Municipal Finance Management Act.

The Audit and Risk committee convened during the year on the following dates:

- 04 Aug 2020 – In committee
- 05 Aug 2020-Ordinary meeting
- 29 October 2020-Special meeting
- 13 November 2020 -Special meeting
- 26 January 2021-Special Meeting
- 02 February 2021-In Committee
- 26 March 2021-Ordinary Meeting
- 07 April 2021-In-Committee
- 13 April 2021-Special Meeting
- 08 June 2021- In committe

Members of the Audit and Risk Committee:

Mr M Sebeelo -Chairperson  
Mr H Maritz -Member  
Mr T Mokale- Member  
Mr R Tshimomola-Member

Members who resigned

Mr M Mokgobinyane-resigned on 17 November 2020

### Internal audit

The municipality has internal audit department that execute the function of the internal audit as provided in Section 165 of the Municipal Finance Management Act.



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Accounting Officer  
OA Losaba

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	7	144 040 280	72 143 231
Receivables from exchange transactions	8	15 837 066	17 072 116
Receivables from non-exchange transactions	9	1 491 174	814 986
VAT receivable	10	21 183 240	36 449 794
Cash and cash equivalents	11	580 912 146	461 593 495
		<b>763 463 906</b>	<b>588 073 622</b>
<b>Non-Current Assets</b>			
Investment property	3	13 837 492	13 837 492
Property, plant and equipment	4	5 096 253 258	5 058 928 791
Other financial assets	5	311 141	295 993
		<b>5 110 401 891</b>	<b>5 073 062 276</b>
<b>Total Assets</b>		<b>5 873 865 797</b>	<b>5 661 135 898</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payable from exchange transactions	14	302 058 518	259 128 100
Employee benefit obligation	6	2 508 724	1 436 358
Unspent conditional grants and receipts	12	-	41 878 031
Provisions	13	1 800 887	4 412 545
		<b>306 368 129</b>	<b>306 855 034</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	6	86 709 169	65 524 380
Provisions	13	20 926 708	16 589 451
		<b>107 635 877</b>	<b>82 113 831</b>
<b>Total Liabilities</b>		<b>414 004 006</b>	<b>388 968 865</b>
<b>Net Assets</b>		<b>5 459 861 791</b>	<b>5 272 167 033</b>
Accumulated surplus		5 459 861 791	5 272 167 034
<b>Total Net Assets</b>		<b>5 459 861 791</b>	<b>5 272 167 034</b>

\* See Note 45 & 44

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	16	140 736	280 648
Rental of facilities and equipment	17	220 764	224 643
Licences and permits	19	70 598	62 644
Other income		322 141	223 640
Interest received	22	23 824 011	29 924 878
<b>Total revenue from exchange transactions</b>		<b>24 578 250</b>	<b>30 716 453</b>
<b>Revenue from non-exchange transactions</b>			
<b>Transfer revenue</b>			
Government grants & subsidies	24	1 236 002 749	1 046 406 052
Government Levy Relief	25	489 171	559 159
Public contributions and donations	26	422 844	4 512 165
Fines, Penalties and Forfeits	18	8 093	77 258
<b>Total revenue from non-exchange transactions</b>		<b>1 236 922 857</b>	<b>1 051 554 634</b>
<b>Total revenue</b>	15	<b>1 261 501 107</b>	<b>1 082 271 087</b>
<b>Expenditure</b>			
Employee related costs	27	(379 516 651)	(359 262 582)
Remuneration of councillors	28	(12 925 504)	(12 787 677)
Depreciation and amortisation	29	(200 885 225)	(202 119 457)
Finance costs	31	(11 215 584)	(7 464 004)
Lease rentals on operating lease	20	(828 131)	(744 123)
Bulk purchases	33	(7 964 786)	(12 126 482)
Contracted services	34	(179 857 939)	(133 441 912)
Transfers and Subsidies	23	(65 000 000)	(15 000 000)
General Expenses	35	(84 837 112)	(62 972 745)
<b>Total expenditure</b>		<b>(943 030 932)</b>	<b>(805 918 982)</b>
<b>Operating surplus</b>	37	<b>318 470 175</b>	<b>276 352 105</b>
Loss on write off of assets		(13 928 702)	(41 750 193)
Transfers to local communities	7	(100 127 955)	(187 611 119)
Fair value adjustments		-	488 791
Actuarial gains/(losses)	6	(5 746 460)	(5 394 343)
Impairment loss	30	(10 972 301)	(20 533 006)
		<b>(130 775 418)</b>	<b>(254 799 870)</b>
<b>Surplus for the year</b>		<b>187 694 757</b>	<b>21 552 235</b>

\* See Note 45 & 44

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2019</b>	<b>5 250 614 799</b>	<b>5 250 614 799</b>
Changes in net assets	21 552 235	21 552 235
Surplus for the year	21 552 235	21 552 235
Total changes		
<b>Restated* Balance at 01 July 2020</b>	<b>5 272 167 034</b>	<b>5 272 167 034</b>
Changes in net assets	187 694 757	187 694 757
Surplus for the year	187 694 757	187 694 757
Total changes		
<b>Balance at 30 June 2021</b>	<b>5 459 861 791</b>	<b>5 459 861 791</b>
Note(s)		

\* See Note 45 & 44

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		765 914	868 833
Government grants		1 193 566 749	1 069 837 241
Interest received		23 658 874	29 924 878
		<u>1 217 991 537</u>	<u>1 100 630 952</u>
<b>Payments</b>			
Employee related costs		(384 206 077)	(361 076 623)
Suppliers		(436 296 445)	(352 567 056)
Finance costs		(59 669)	(1 085 605)
Transfers and subsidies		(15 000 000)	(12 000 000)
		<u>(835 562 191)</u>	<u>(726 729 284)</u>
<b>Net cash flows from operating activities</b>	<b>38</b>	<b><u>382 429 346</u></b>	<b><u>373 901 668</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	<u>(263 110 695)</u>	<u>(212 491 109)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>119 318 651</b>	<b>161 410 559</b>
Cash and cash equivalents at the beginning of the year		461 593 495	300 182 935
<b>Cash and cash equivalents at the end of the year</b>	<b>11</b>	<b><u>580 912 146</u></b>	<b><u>461 593 494</u></b>

\* See Note 45 & 44

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	248 434	(143 529)	104 905	140 736	35 831	BD1
Rental of facilities and equipment	218 763	-	218 763	220 764	2 001	
Licences and permits	60 000	12 000	72 000	70 598	(1 402)	
Other Income	230 000	42 489	272 489	-	(272 489)	BD2
Other income	-	-	-	322 141	322 141	
Interest received - investment	-	21 034 543	21 034 543	23 824 011	2 789 468	BD3
<b>Total revenue from exchange transactions</b>	<b>757 197</b>	<b>20 945 503</b>	<b>21 702 700</b>	<b>24 578 250</b>	<b>2 875 550</b>	

##### Revenue from non-exchange transactions

##### Transfer revenue

Government grants & subsidies	920 804 000	211 120	921 015 120	1 236 002 749	314 987 629	BD13
Levies	-	-	-	489 171	489 171	
Public contributions and donations	-	-	-	422 844	422 844	
Fines, Penalties and Forfeits	-	-	-	8 093	8 093	
<b>Total revenue from non-exchange transactions</b>	<b>920 804 000</b>	<b>211 120</b>	<b>921 015 120</b>	<b>1 236 922 857</b>	<b>315 907 737</b>	
<b>Total revenue</b>	<b>921 561 197</b>	<b>21 156 623</b>	<b>942 717 820</b>	<b>1 261 501 107</b>	<b>318 783 287</b>	

#### Expenditure

Personnel	(386 585 306)	(1 410 920)	(387 996 226)	(379 516 651)	8 479 575	
Remuneration of councillors	(14 198 215)	-	(14 198 215)	(12 925 504)	1 272 711	BD4
Depreciation and amortisation	(214 270 483)	-	(214 270 483)	(200 885 225)	13 385 258	BD5
Impairment loss	-	-	-	(10 972 301)	(10 972 301)	
Finance costs	-	-	-	(11 215 584)	(11 215 584)	BD6
Lease rentals on operating lease	-	-	-	(828 131)	(828 131)	
Bulk purchases and materials	(149 780 000)	(37 728 000)	(187 508 000)	(7 964 786)	179 543 214	BD7
Contracted Services	(67 608 427)	(80 858 681)	(148 467 108)	(179 857 939)	(31 390 831)	BD8
Transfers and Subsidies	(50 000 000)	-	(50 000 000)	(65 000 000)	(15 000 000)	
General Expenses	(76 927 541)	(2 157 598)	(79 085 139)	(84 837 112)	(5 751 973)	I
<b>Total expenditure</b>	<b>(959 369 972)</b>	<b>(122 155 199)</b>	<b>(1 081 525 171)</b>	<b>(954 003 233)</b>	<b>127 521 938</b>	
<b>Operating surplus</b>	<b>(37 808 775)</b>	<b>(100 998 576)</b>	<b>(138 807 351)</b>	<b>307 497 874</b>	<b>446 305 225</b>	
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	-	-	-	(13 928 702)	(13 928 702)	
Loss on disposal of assets	-	-	-	(100 127 955)	(100 127 955)	
Actuarial gains/losses	-	-	-	(5 746 460)	(5 746 460)	
	-	-	-	(119 803 117)	(119 803 117)	
<b>Surplus/(Deficit)</b>	<b>(37 808 775)</b>	<b>(100 998 576)</b>	<b>(138 807 351)</b>	<b>187 694 757</b>	<b>326 502 108</b>	

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>(37 808 775)</b>	<b>(100 998 576)</b>	<b>(138 807 351)</b>	<b>187 694 757</b>	<b>326 502 108</b>	

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## 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>						
Inventories	32 400 000	(19 216 109)	13 183 891	144 040 280	130 856 389	BD9
Receivables from exchange transactions	-	-	-	15 837 066	15 837 066	
Receivables from non-exchange transactions	-	-	-	1 491 174	1 491 174	
VAT receivable	-	-	-	21 183 240	21 183 240	
Cash and cash equivalents	230 230 081	64 630 188	294 860 269	580 912 146	286 051 877	
	<b>262 630 081</b>	<b>45 414 079</b>	<b>308 044 160</b>	<b>763 463 906</b>	<b>455 419 746</b>	
<b>Non-Current Assets</b>						
Investment property	-	13 837 492	13 837 492	13 837 492	-	
Property, plant and equipment	5 513 037 000	(51 179 000)	5 461 858 000	5 096 253 258	(365 604 742)	
Intangible assets	12 012 000	(12 012 000)	-	-	-	
Other financial assets	-	318 000	318 000	311 141	(6 859)	
	<b>5 525 049 000</b>	<b>(49 035 508)</b>	<b>5 476 013 492</b>	<b>5 110 401 891</b>	<b>(365 611 601)</b>	
<b>Total Assets</b>	<b>5 787 679 081</b>	<b>(3 621 429)</b>	<b>5 784 057 652</b>	<b>5 873 865 797</b>	<b>89 808 145</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payable from exchange transactions	129 749 000	96 345 000	226 094 000	302 058 518	75 964 518	BD10
Employee benefit obligation	-	-	-	2 508 724	2 508 724	
Provisions	47 075 000	(30 486 000)	16 589 000	1 800 887	(14 788 113)	BD11
	<b>176 824 000</b>	<b>65 859 000</b>	<b>242 683 000</b>	<b>306 368 129</b>	<b>63 685 129</b>	
<b>Non-Current Liabilities</b>						
Employee benefit obligation	-	-	-	86 709 169	86 709 169	
Provisions	47 075 000	(30 486 000)	16 589 000	20 926 708	4 337 708	
	<b>47 075 000</b>	<b>(30 486 000)</b>	<b>16 589 000</b>	<b>107 635 877</b>	<b>91 046 877</b>	
<b>Total Liabilities</b>	<b>223 899 000</b>	<b>35 373 000</b>	<b>259 272 000</b>	<b>414 004 006</b>	<b>154 732 006</b>	
<b>Net Assets</b>	<b>5 563 780 081</b>	<b>(38 994 429)</b>	<b>5 524 785 652</b>	<b>5 459 861 791</b>	<b>(64 923 861)</b>	
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	5 563 780 081	(38 994 429)	5 524 785 652	5 459 861 791	(64 923 861)	

**Ngaka Modiri Molema District Municipality**

(Registration number DC38)  
Annual Financial Statements for the year ended 30 June 2021

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

Figures in Rand	Note(s)	2021	2020
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### 1. Presentation of Annual Financial Statements

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

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

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

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

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

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

Management considers key financial metrics and approved medium-term budgets, MFMA Section 71 reports together with the municipality's dependency on grants from national and provincial government, to conclude that the going concern assumption used in the compiling of its annual financial statements, is appropriate. The COVID-19 disaster has not yet affected the going concern assumption, however management is continuously assessing any indicators of negative impact.

#### 1.3 Materiality

Material omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of the financial statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the information item, or a combination of both, could be the determining factor.

Materiality has been considered in determining whether information is required to be recognised, measured, presented and disclosed in accordance with the requirements in the Standards of GRAP as well as assessing the effect of omissions, misstatements and errors on the financial statements.

#### Budget information

Variances between budget and actual amounts are regarded as material when there is a variance of:  
- 20% or greater in the statement of financial position, the statement of financial performance and the cash flow statement.

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

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

#### Allowance for slow moving, damaged and obsolete stock

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

#### Impairment testing

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

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

#### 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 13 - Provisions.

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

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

#### Post-retirement benefits

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

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

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

#### Allowance for doubtful debts

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

### 1.5 Investment property

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.5 Investment property (continued)

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.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases (this will include the property portfolio rented out by the Housing Board on a commercial basis on behalf of the municipality); and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties

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

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

#### Fair value

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

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

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

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

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

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.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.5 Investment property (continued)

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

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

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

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

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

### 1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

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.

#### Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, excluding land and building and including for Infrastructure Assets, are measured at cost, less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

#### Depreciation

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost or revalued amounts to their residual values over the estimated useful lives of the assets. 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. 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 shall be depreciated separately.

The assets' residual values, estimated useful lives and depreciation method are reviewed based on indicators, and adjusted prospectively if appropriate, at each reporting date.

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

#### Incomplete Construction Work

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

#### Land

Land is not depreciated as it is deemed to have an indefinite useful life.

Any land that has been classified as Property, Plant and Equipment will be measured originally at cost price. If the cost price is not available, the comparative sales method will be used to accurately measure and account for land.

The municipality early adopted IGRAP 18 during the 2018/2019 financial year. IGRAP 18 gives guidance on recognition and de-recognition of land based on control, not only legal title. Control is demonstrated by applying the following criteria;

- legal title
- and/or right to direct and restrict or deny access of others to land.

The municipality must control the resource. Control of the resource is evidenced by the entity's ability to use the resource, or direct other parties to use it, so as to benefit from the future economic benefits or service potential embodied in the resource. Control is evidenced by the rights and obligations arising from a binding arrangement.

In the absence of a binding agreement with a third party, legal ownership is sufficient to demonstrate control over the land, as the municipality has not transferred the rights or obligations in relation to the land. In such cases the right to direct access to and restrict or deny access of others to the land has been retained.

#### Infrastructure Assets

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

#### Derecognition of property, plant and equipment

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

benefits or service potential are expected from its use or disposal

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.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

#### Impairments of assets

The entity classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets

#### Impairment of Cash generating assets

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

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 recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset"

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

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment of assets carried at revalued amount in reduces the revaluation surplus for that asset. The decrease shall be debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

An impairment loss is recognised for non-cash generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:  
.to the assets of the unit, pro rata based on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit

#### Impairment of Non-Cash generating assets

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

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

The recoverable service amount is the higher of a non-cash generating asset's fair value less costs to sell and its value in use. The value in use for a non-cash generating asset is the present value of the asset's remaining service potential.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

An impairment loss is recognised for non cash-generating units if the recoverable service amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit as follows:

- to the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.
- A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased.
- If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase

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

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Item	Depreciation method	Average useful life
Buildings	Straight-line	8 - 50
Electricity infrastructure	Straight-line	5 - 50
Water infrastructure	Straight-line	10 - 100
Sewerage Infrastructure	Straight-line	10 - 70
Motor vehicles	Straight-line	1 - 10
Office equipment	Straight-line	3 - 7
Furniture and fittings	Straight-line	7 - 10
Plant and equipment	Straight-line	2 - 10
Specialised vehicles	Straight-line	1 -15
Infrastructure	Straight-line	

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

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

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

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

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

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

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

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

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

### 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.

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.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.7 Intangible assets (continued)

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:

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Item	Depreciation method	Average useful life
Computer software, other	Straight-line	1 - 5 years

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

### 1.8 Financial instruments

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

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

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

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

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

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

A financial asset is:

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Classification

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

<b>Class</b>	<b>Category</b>
Other financial asset	Financial asset measured at fair value
Cash and cash equivalents	Financial asset measured at fair value
Receivables from exchange transactions	Financial asset measured at amortised cost
Receivables from non-exchange transaction	Financial asset measured at amortised cost

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

<b>Class</b>	<b>Category</b>
Trade and other payables from exchange transactions	Financial liability measured at fair value

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:

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

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

Financial instruments at fair value.

Financial instruments at amortised cost.

Financial instruments at cost.

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

#### Fair value measurement considerations

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

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.8 Financial instruments (continued)

adjusting an allowance account. The reversal does not result in a carrying amount of the financial asset that exceeds what the amortised cost would have been had the impairment not been recognised at the date the impairment is reversed. The amount of the reversal is recognised in surplus or deficit.

Financial assets measured at cost:

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

### Derecognition

#### Financial assets

The 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.

#### Financial liabilities

The entity derecognises 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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.8 Financial instruments (continued)

having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

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

#### 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 Leases

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

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

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.10 Inventories

#### Initial Measurement

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

#### Subsequent Measurement

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

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

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

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

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

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

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

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

#### Derecognition

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

### 1.11 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

- the period of time over which an asset is expected to be used by the municipality; or

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

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

- the number of production or similar units expected to be obtained from the asset by the municipality.

### 1.12 Cash and Cash Equivalents

Cash includes cash on hand, cash held with banks, and call deposits. Cash equivalents are short term bank deposits with a maturity of three months or less from inception, readily convertible to cash without significant change in value.

For the purposes of the cash flow statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of any bank overdrafts.

### 1.13 Employee benefits

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

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

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

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

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

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

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

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.13 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.13 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

#### Other post retirement obligations

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

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

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

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

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.13 Employee benefits (continued)

#### Termination benefits

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

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

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

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

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

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

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

### 1.14 Provisions and contingencies

Provisions are recognised when:

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

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

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

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.

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.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.14 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 41.

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

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

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

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

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

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.14 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 1.11 and .

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

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

### 1.15 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

### 1.16 Revenue from exchange transactions

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

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

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

#### Measurement

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

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.16 Revenue from exchange transactions (continued)

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

#### Interest, royalties and dividends

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

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

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

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

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

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

### 1.17 Revenue from non-exchange transactions

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

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

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

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

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

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

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

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

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

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

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

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.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

#### 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.

### 1.18 Cost of sales

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all surplus of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value, is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The related cost of providing services recognised as revenue in the current period is included in cost of sales.

Contract costs comprise:

- costs that relate directly to the specific contract;
- costs that are attributable to contract activity in general and can be allocated to the contract on a systematic and rational basis; and
- such other costs as are specifically chargeable to the customer under the terms of the contract.

### 1.19 Investment income

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

### 1.20 Borrowing costs

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

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

### 1.21 Accounting by principals and agents

#### Identification

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

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

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

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

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

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

#### Binding arrangement

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

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

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

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

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

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

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

### 1.22 Comparative figures

#### Prior year Comparative

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year. When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

#### Current year Comparative

Budgeted amounts have been included in the annual financial statements for the current financial year only.

### 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.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.23 Unauthorised expenditure (continued)

Unauthorised expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Practice Notes, Guidelines etc (as applicable).

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

### 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.

Fruitless and wasteful expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Practice Notes, Guidelines etc (as applicable).

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

### 1.25 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy.

Irregular expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Practice Notes, Guidelines etc (as applicable).

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

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

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

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

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

### 1.26 Segment information

A segment is an activity of an entity:

- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.26 Segment information (continued)

- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

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

### Measurement

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

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

### 1.27 Budget information

Municipality 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 a accrual basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2020/07/01 to 2021/06/30.

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.

### 1.28 Related parties

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

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

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

---

### 1.28 Related parties (continued)

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

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

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

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

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

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

### 1.29 Events after reporting date

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

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

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

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

### 1.30 Distribution losses

Distribution losses are losses that result from differences between purchases and consumptions both billed and estimated.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 2. New standards and interpretations

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods:

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
• Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards	01 April 2021	Unable to reliably estimate the impact
• Guideline: Accounting for Arrangements Undertaken i.t.o the National Housing Programme	01 April 2021	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2021	Unlikely there will be a material impact
• GRAP 20: Related parties	01 April 2021	Not expected to impact results but may result in additional disclosure
• GRAP 108: Statutory Receivables	01 April 2021	Not expected to impact results but may result in additional disclosure
• GRAP 109: Accounting by Principals and Agents	01 April 2021	Unlikely there will be a material impact

# Ngaka Modiri Molema District Municipality

(Registration number DC38)  
Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Investment property

	2021	2020
Cost / Valuation	13 837 492	13 837 492
Accumulated depreciation and accumulated impairment	-	-
Carrying value	13 837 492	13 837 492

Investment property

### Reconciliation of investment property - 2021

Opening balance	13 837 492
Total	13 837 492

Investment property

### Reconciliation of investment property - 2020

Opening balance	13 837 492
Total	13 837 492

Investment property

### Pledged as security

No investment property were pledged as security.

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.

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.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 3. Investment property (continued)

#### Details of valuation

Investment property was valued at fair value by EMS Solutions at 30 June 2021, the fair value was calculated using the comparative sales method. There is no indication of any conditions existing regarding a change in the market condition and circumstance of the property in the current year.

Valuation was performed by Mr DB Grobler - Appraiser and professional associated valuer.

#### Operating lease

There are no operating leases classified under Investment Property, the vacant land is merely held for capital appreciation.

#### Income and Expenditure

None of the Investment Property was rented out. There were no maintenance or operating expenditure on Investment Property. No Investment Property was sold during the 2019 or 2020 year end.

Amounts recognised in surplus and deficit for the year.

Investment property located in (a foreign country: specify) is governed by that country's exchange controls and therefore the rental income and proceeds from any sale of that investment property are not available to the municipality:

Restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal are as follows:

Contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements is as follows:

In the exceptional cases when the municipality has to measure investment property using the cost model in the Standard of GRAP on Property, Plant and Equipment when the municipality subsequently uses the fair value measurement, disclose the following:

- a description of the investment property,
- an explanation of why fair value cannot be determined reliably,
- if possible, the range of estimates within which fair value is highly likely to lie, and
- on disposal of investment property not carried at fair value:
  - the fact that the entity has disposed of investment property not carried at fair value,
  - the carrying amount of that investment property at the time of sale, and
  - the amount of gain or loss recognised.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 4. Property, plant and equipment

	2021		2020			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	20 588 362	-	20 588 362	20 588 362	-	20 588 362
Buildings	211 048 519	(95 033 827)	116 014 692	209 885 349	(90 430 612)	119 454 737
Other property, plant and equipment	62 794 808	(26 268 143)	36 526 665	50 108 184	(26 071 293)	24 036 891
Infrastructure	0 388 052 274	(5 464 928 735)	4 923 123 539	0 173 654 485	(5 278 805 684)	4 894 848 801
<b>Total</b>	<b>10 682 483 963</b>	<b>(5 586 230 705)</b>	<b>5 096 253 258</b>	<b>10 454 236 380</b>	<b>(5 395 307 589)</b>	<b>5 058 928 791</b>

### Reconciliation of property, plant and equipment - 30 June 2021

	Opening balance	Additions	Disposals (Write-off)	Work In Progress	Depreciation	Impairment loss	Total
Land	20 588 362	-	-	-	-	-	20 588 362
Buildings	119 454 737	57 432 833	(45 131)	(55 854 185)	(4 940 934)	(32 628)	116 014 692
Other property, plant and equipment	24 036 891	18 540 463	(3 345 567)	-	(2 701 976)	(3 146)	36 526 665
Infrastructure	4 894 848 801	238 696 692	(10 438 005)	4 194 893	(193 242 315)	(10 936 527)	4 923 123 539
<b>Total</b>	<b>5 058 928 791</b>	<b>314 669 988</b>	<b>(13 828 703)</b>	<b>(51 659 292)</b>	<b>(200 885 225)</b>	<b>(10 972 301)</b>	<b>5 096 253 258</b>

## Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

### Notes to the Annual Financial Statements

Figures in Rand

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

##### Reconciliation of property, plant and equipment - 30 June 2020

	Opening balance	Additions	Disposals (Write-off)	Work In Progress	Transfers	Not assets of NNMDM	Depreciation	Impairment loss	Total
Land	20 588 362	-	-	-	-	-	-	-	20 588 362
Buildings	120 526 017	144 822	(61 156)	4 165 986	-	-	(3 400 144)	(1 920 788)	119 454 737
Other property, plant and equipment	25 695 934	4 140 254	(2 594 691)	-	-	-	(2 761 372)	(443 234)	24 036 891
Infrastructure	4 944 030 025	231 224 286	(36 478 253)	(26 487 716)	(3 703 628)	(73 289)	(195 493 639)	(18 168 985)	4 894 848 801
	<b>5 110 840 338</b>	<b>235 509 362</b>	<b>(39 134 100)</b>	<b>(22 321 730)</b>	<b>(3 703 628)</b>	<b>(73 289)</b>	<b>(200 612 019)</b>	<b>(20 533 007)</b>	<b>5 058 928 791</b>

#### Pledged as security

No property, plant and equipment were pledged as security

#### Other information

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>4. Property, plant and equipment (continued)</b>		
<b>Property, plant and equipment in the process of being constructed or developed</b>		
The Following projects are currently experiencing delays or were halted. For each project, the reason for the delay or halting of the project were noted. The carrying amount of those assets included in the balance of the Property, Plant and Equipment are listed below.		
<b>Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected</b>		
Groot Marico WWTP	51 926 765	51 926 765
Groot Marico WWTP was delayed due to land ownership disputes. The project continued after the municipality bought the farm on which the project was started.		
Zeerust Waste Water Treatment Plant Phase 2	103 220 976	83 844 570
Zeerust WWTP Phase 2 was delayed due to non funding for the project. The project had to be re-advertised when funding was made available		
	<b>155 147 741</b>	<b>135 771 335</b>
<b>Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)</b>		
Dinokana Bulk Water Supply Augmentation Phase 2	17 795 904	17 795 904
There is currently a litigation process with the contractor Beyond Build Construction for non payment of the certificates		
Madibogo Water Supply	15 158 496	15 158 496
The Project was placed on hold because there was no source of water.		
Mafikeng South Bulk Water Supply	15 359 021	15 359 021
Project seeded to Sedibeng project will be handed over to Ngaka Modiri Molema District Municipality after completion.		
Part of Seweding, Magogoe Tar & Phatsima Water Supply	3 223 586	3 223 586
Project seeded to Sedibeng project will be handed over to Ngaka Modiri Molema District Municipality after completion		
	<b>51 537 007</b>	<b>51 537 007</b>

### Reconciliation of Work-in-Progress -30 June 2021

	Included within Infrastructure	Included within Buildings	Total
Opening balance	462 722 695	58 437 417	521 160 112
Additions/capital expenditure	254 796 499	1 578 647	256 375 146
Transferred to completed items	(132 146 673)	(57 432 833)	(189 579 506)
	<b>585 372 521</b>	<b>2 583 231</b>	<b>587 955 752</b>

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021                      2020

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

#### Reconciliation of Work-in-Progress -30 June 2020

	<b>Included within Infrastructure</b>	<b>Included within Buildings</b>	<b>Total</b>
Opening balance	467 065 659	54 271 431	521 337 090
Additions/capital expenditure	131 310 483	4 165 986	135 476 469
Impaired WIP	(805 771)	-	(805 771)
Transferred to completed items	(156 992 428)	-	(156 992 428)
	<b>440 577 943</b>	<b>58 437 417</b>	<b>499 015 360</b>

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.

### 5. Other financial assets

#### Residual interest at cost

Momentum Flexible investment 311 141                      295 993

#### Non-current assets

At amortised cost 311 141                      295 993

#### Financial assets at fair value

#### Fair values of financial assets measured or disclosed at fair value

#### Fair value hierarchy of financial assets at fair value

The municipality has a flexible investment account with Momentum, the investment yields interest of 7.45 % per annum.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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### 6. Employee benefit obligations

#### Defined benefit plan

##### Post retirement medical aid plan

The Municipality provides for certain Post-Retirement health benefits by funding the medical aid contribution of qualifying retired members of the municipality. According to the rules of the Medical Aid funds, which the municipality is associated with, a member is entitled to remain a continued member of such medical aid on retirement in which case the municipality is liable for a certain portion of the Medical aid membership fee. The municipality operates an unfunded Defined benefit Plan for these qualifying employees. No other post - retirement benefits are provided to these employees.

The municipality makes monthly contribution for health care arrangements to the following medical aid schemes:

- Bonitas
- Hosmed
- Keyhealth
- LA Health
- Samwumed

The most recent Actuarial Valuation of the Present value of the Defined Benefit Obligation were carried out at the 30 June 2021 by One Pangaea Expertise and Solutions, fellow of the Actuarial Society of South Africa. The present value of the Defined Benefit Obligation and the related current service and past service cost were measured using the projected unit credit method.

The following table summarises the active employees and the continuation pensioners subsidised by the Municipality as at 30 June 2021

Categories	Valuation at 30 June 2021	Valuation at 30 June 2020
Retirement Medical Aid	679	652
In service non-members continuation	7	7
	<b>686</b>	<b>659</b>

#### Pension benefits

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(66 960 723)	(52 830 195)
Current service cost	(6 586 252)	(5 423 543)
Current interest cost	(9 484 975)	(4 707 352)
Actuarial gain(loss) over financial year	(6 327 754)	(4 166 354)
Benefits paid out	141 826	166 706
	<b>(89 217 878)</b>	<b>(66 960 738)</b>
Non-current liabilities	(86 709 169)	(65 524 380)
Current liabilities	(2 508 724)	(1 436 358)
	<b>(89 217 893)</b>	<b>(66 960 738)</b>

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

Opening balance	(66 960 723)	(52 830 195)
Benefits paid	129 228	149 265
Net expense recognised in the statement of financial performance	(22 386 383)	(14 279 793)
	<b>(89 217 878)</b>	<b>(66 960 723)</b>

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

### 6. Employee benefit obligations (continued)

#### Net expense recognised in the statement of financial performance

Current service cost	(6 586 252)	(5 423 543)
Interest cost	(9 484 975)	(4 707 337)
Actuarial (gains) losses	(6 315 156)	(4 148 913)
	<b>(22 386 383)</b>	<b>(14 279 793)</b>

#### Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	(6 315 155)	(4 148 913)
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#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10,05 %	14,18 %
Expected increase in salaries	6,16 %	8,94 %
Expected increase in healthcare costs	7,66 %	10,44 %
Net discount rate	2,22 %	3,39 %

GRAP 25 defines the determination of the Discount rate as assumption, to be used as follows;

The discount rate reflects the Time Value of Money is the best approximated by reference to the market yields at the Reporting date on Government Bonds. Where there is no dip in the Market for Government Bonds with sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rates for longer maturities by extrapolating current market rates along the yield curves.

Expected Retirement Age	Valuation 2021	Valuation 2020
Female	65	65
Male	65	65

The effect of the major categories of plan assets is as follow: A nil value to the fair value of plan assets was assumed as there were no assets aside for post-employment medical subsidies funding that qualify as plan assets in terms of the requirements of GRAP25.

The basis on which the discount rate has been determined is the relative levels of the discount rate and health care cost inflation to one another rather than the nominal values. The assumption regarding the relative levels of these two rates is our expectation of the long-term average.

#### Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. A one percentage point change in assumed healthcare cost trends rates would have the following effects:

Amounts for the current and previous four years are as follows:

	2021	2020	2019	2018	2017
Defined benefit obligation	89 217 878	66 960 723	52 830 195	34 039 000	27 023 000

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>7. Inventories</b>		
Raw materials, components	16 760 349	25 536 904
Merchandise	125 470 990	44 797 386
Consumable stores	1 760 740	1 760 740
Water for distribution	48 201	48 201
	<b>144 040 280</b>	<b>72 143 231</b>

Inventories recognised as an expense during the year 136 200 878 212 201 569

### **Inventory pledged as security**

No inventory was pledged as a security or collateral

### **VIP Toilets inventory reconciliation**

Opening balance	44 797 386	133 858 521
Additions	180 801 559	98 399 695
Completed and transferred	(100 127 955)	(187 460 830)
<b>Closing balance</b>	<b>125 470 990</b>	<b>44 797 386</b>

## **8. Receivables from exchange transactions**

Salary Control Accounts	-	2 429 828
Deposits	2 089 513	2 086 201
Prepayment	13 747 553	12 556 087
	<b>15 837 066</b>	<b>17 072 116</b>

### **Trade and other receivables pledged as security**

No trade and other receivables were pledged as security or collateral

### **Credit quality of trade and other receivables**

The credit quality of trade and other receivables requires no impairment as the amounts receivable relates to prepayment of SALGA membership which runs on a different year end subscription period to the municipality's year end. The municipality expects to hold the membership through the year and will fully recover the prepaid fees.

The amount of prepaid expenditure relating to the prepayment to supplier requires no impairment provision as the municipality expects to recover the amounts prepaid through services committed to by supplier but has been halted due to the COVID-19 pandemic restrictions on international and local travel

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

Trade and other receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2021, 30 June 2021 - (2020: 30 June 2021 -) were past due but not impaired.

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

1 month past due	-	9 791 752
2 months past due	-	2 752 687

The total amount of R12 133 116 in current year relates to prepayments made to suppliers and third parties, total amount of R9 448 686(Excl. VAT) was paid as a deposit for a fire truck and R2 684 424 was a prepayment of membership fee to SALGA.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>9. Receivables from non-exchange transactions</b>		
Government grants and subsidies	557 969	-
Staff debtors	933 205	814 986
	<b>1 491 174</b>	<b>814 986</b>

### Receivables from non-exchange transactions pledged as security

No trade and other receivables from non-exchange transactions were pledged as security or collateral

### Credit quality of receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions requires no impairment as the receivables relate to employee related debtors who are still in employment of the municipality and the amounts receivable enforceable through employee debt acknowledgement and monitored through payroll. Further the municipality expects to recover the full legal fees as they are enforceable by court order

### 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 2021, 30 June 2021 7 818 786 (2020: 30 June 2021 1 669 680) were past due but not impaired.

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

1 month past due	-	498 354
2 months past due	-	28 521
3 months past due	7 818 786	1 669 680

### 10. VAT receivable

VAT	21 183 240	36 449 794
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The Municipality is registered with the South African Revenue Service (SARS) for VAT on the payments basis in accordance with Section 15(2) of the Value Added Tax Act No. 89 of 1991. VAT is claimed from SARS only once payment is made to creditors

### 11. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	25 636 915	108 649 626
Short-term deposits	555 275 232	353 046 240
	<b>580 912 147</b>	<b>461 695 866</b>

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

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

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
FNB Cheque Acc 52910086795	71 192 411	113 779 888	18 402 009	25 636 915	108 649 626	16 380 214
FNB Call Account 62859822374	24 730	-	-	24 730	-	-
FNB Call Account 62825653016	21 816 146	1 940 456	-	21 816 146	1 940 456	-
ABSA Call deposit 160432220101	322 504	317 183	304 740	340 526	317 183	304 740
FNB 8888886092907000	-	28 274	28 274	-	28 274	28 274
FNB Call account 62445709746	340 845 396	170 902 118	283 453 224	340 845 396	170 902 118	283 453 224
ABSA 32 days notice 7064362660	-	-	285	-	-	285
Nedbank investment 03/7881001518/000014	-	107 067 202	-	-	107 067 202	-
Investec/ Ninety One FundManagers - 1234890	-	72 791 006	-	-	72 791 006	-
FNB Call Account 62860297706	162 719 959	-	-	162 719 959	-	-
FNB Call Account 62858604369	29 528 475	-	-	29 528 475	-	-
<b>Total</b>	<b>626 449 621</b>	<b>466 826 127</b>	<b>302 188 532</b>	<b>580 912 147</b>	<b>461 695 865</b>	<b>300 166 737</b>

### 12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant	- 41 878 031
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The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

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

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

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

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

### 13. Provisions

#### Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Interest	Actuarial gain/(loss)	Total
Long service awards	21 001 996	1 877 006	(1 269 891)	1 670 940	(552 456)	22 727 595

#### Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Interest	Actuarial gain/(loss)	Total
Long service awards	19 037 524	1 887 863	(2 839 883)	1 671 062	1 245 430	21 001 996
Non-current liabilities					20 926 708	16 589 451
Current liabilities					1 800 887	4 412 545
					<b>22 727 595</b>	<b>21 001 996</b>

The most recent Actuarial Valuation of the Present value of the Defined Benefit Obligation were carried out at the 30 June 2021 by One Pangaea Expertise and Solutions, fellow of the Actuarial Society of South Africa. The present value of the Defined Benefit Obligation and the related current service and past service cost were measured using the projected unit credit method.

### 14. Payable from exchange transactons

Trade payables	158 146 415	170 044 817
Transfers and subsidy payable	58 000 000	8 000 000
Retention fees	41 457 989	31 239 091
Leave accrual	27 159 217	35 488 069
Employee related accruals	7 047 967	4 503 600
Salary control account	30 931	-
Bonus accrual	10 215 999	9 852 523
	<b>302 058 518</b>	<b>259 128 100</b>

### 15. Revenue

Service charges	140 736	280 648
Rental of facilities and equipment	220 764	224 643
Licences and permits	70 598	62 644
Other income	322 141	223 640
Interest received - investment	23 824 011	29 924 878
Government grants & subsidies	1 236 002 749	1 046 406 052
Government levy relief	489 171	559 159
Public contributions and donations	422 844	4 512 165
Fines, Penalties and Forfeits	8 093	77 258
	<b>1 261 501 107</b>	<b>1 082 271 087</b>

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021                      2020

### 15. Revenue (continued)

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

Service charges	140 736	280 648
Rental of facilities and equipment	220 764	224 643
Licences and permits	70 598	62 644
Other income	322 141	223 640
Interest received - investment	23 824 011	29 924 878
	<b>24 578 250</b>	<b>30 716 453</b>

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

#### Taxation revenue

#### Transfer revenue

Government grants & subsidies	1 236 002 749	1 046 406 052
Government levy relief	489 171	559 159
Public contributions and donations	422 844	4 512 165
Fines, Penalties and Forfeits	8 093	77 258
	<b>1 236 922 857</b>	<b>1 051 554 634</b>

### 16. Service charges

Sale of water	49 341	153 628
Sewerage and sanitation charges	91 395	127 020
	<b>140 736</b>	<b>280 648</b>

### 17. Rental of facilities and equipment

#### Premises

Premises	220 764	224 643
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Included in the above rentals are operating lease rentals at straight-lined amounts of 221 852 (2020: 30 June 2021 289 243), there were no contingent rentals.

### 18. Fines, Penalties and Forfeits

Building Fines	8 093	77 258
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*Fines, penalties and forfeits were incorrectly classified under service charges in the prior year, refer to note 44 for prior year reclassification note.*

### 19. Licences and permits (exchange)

Health Certificates	70 598	62 644
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*Licences and permits were incorrectly classified under rental income in the prior year, refer to note 44 for prior year reclassification note.*

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>20. Lease rentals on operating lease</b>		
<b>Premises</b>		
Parking	336 000	321 300
<b>Equipment</b>		
Photocopying	492 131	422 823
	<b>828 131</b>	<b>744 123</b>
<i>Refer to disclosure note.40 for minimum lease payment disclosure.</i>		
<b>21. Other revenue</b>		
Sale of tender documents	322 141	223 640
<b>22. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	23 824 011	29 924 878
Interest is earned on all positive bank balances and call accounts on a monthly basis.		
<b>23. Transfers and subsidies</b>		
<b>Other subsidies</b>		
Transfers to local municipalities	65 000 000	15 000 000

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021                      2020

### 24. Government grants and subsidies

#### Operating grants

Equitable share	916 965 000	762 805 062
Financial Management Grant	2 700 000	2 330 000
EPWP	1 139 000	1 243 316
LG SETA	510 749	1 914 808
Municipal Disaster Recovery Grant	-	745 000
Rural Roads Asset Management	2 561 000	2 691 000
	<b>923 875 749</b>	<b>771 729 186</b>

#### Capital grants

Water System Infrastructure Grant	-	17 055 897
Municipal Infrastructure Grant	312 127 000	257 620 969
	<b>312 127 000</b>	<b>274 676 866</b>
	<b>1 236 002 749</b>	<b>1 046 406 052</b>

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	317 385 790	283 600 990
Unconditional grants received	917 475 749	762 805 062
	<b>1 234 861 539</b>	<b>1 046 406 052</b>

#### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

#### Water Service Infrastructure Grant

Balance unspent at beginning of year	-	17 055 897
Conditions met - transferred to revenue	-	(17 055 897)
	<b>-</b>	<b>-</b>

Purpose of the grant is to facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and enhance the sustainability of services especially in rural municipalities; provide interim intermediate water and sanitation supply that ensures provision of services to identified and prioritised communities including spring protection and groundwater development; support in implementing water conservation and water demand management projects; support the closeout of the existing bucket eradication programme intervention in formal residential areas, support drought relief projects in affected areas

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	41 878 031	-
Current-year receipts	293 727 000	299 499 000
Conditions met - transferred to revenue	(312 127 000)	(257 620 969)
Unspent Grant set-off against Equitable Share	(23 478 031)	-
	<b>-</b>	<b>41 878 031</b>

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

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

The grant is for provision of specific capital finance for eradicating basic municipal infrastructure backlogs for poor household, microenterprises and social institutions servicing poor communities.

#### EPWP

Balance unspent at beginning of year	-	8 316
Current-year receipts	1 139 000	1 235 000
Conditions met - transferred to revenue	(1 139 000)	(1 243 316)
	<u>-</u>	<u>-</u>

Purpose of the grant is to incentivise the municipality to expand work creation efforts through the use of labour intensive delivery methods (roads maintenance and the maintenance of buildings, low traffic volume roads and rural roads, basic services infrastructure, including water and sanitation reticulation (excluding built infrastructure), other economic and social infrastructure, tourism and cultural industries, waste management, parks and beautification, sustainable land-based livelihoods, social services programmes, community safety programmes) in line with Expanded Public Works Programme guidelines.

#### Municipal Disaster Recovery Grant

Current-year receipts	-	745 000
Conditions met - transferred to revenue	-	(745 000)
	<u>-</u>	<u>-</u>

Purpose of the grant is to provide for the immediate release of funds for disaster response

#### LG SETA

Balance unspent at beginning of year	-	1 372 567
Current-year receipts	510 749	542 240
Conditions met - transferred to revenue	(510 749)	(1 914 807)
	<u>-</u>	<u>-</u>

Purpose of the grant is to aid in the development of a skilled and capable workforce supporting a responsive, accountable, efficient and effective local government system, through a range of learning programmes that focuses on scarce and critical skills in the respect of sectors covered by the LGSETA, the New Growth Path, the Industrial Development Action Plan, the National Skills Accord, the Green Accord, the Beneficiation Strategy of South Africa, the National Development Plan, Strategic Integrated Projects, the Rural Development Strategy, the Back to Basics Strategy, the Environmental Strategy and the Human Resource Development Strategy.

#### FMG

Current-year receipts	2 700 000	2 330 000
Conditions met - transferred to revenue	(2 700 000)	(2 330 000)
	<u>-</u>	<u>-</u>

Purpose of the grant is to promote and support reforms to financial management and the implementation of the MFMA.

#### Rural Roads Asset Management Grant

Balance unspent at beginning of year	-	10 062
Current-year receipts	2 561 000	2 691 000
Conditions met - transferred to revenue	(2 561 000)	(2 691 000)
Withheld	-	(10 062)
	<u>-</u>	<u>-</u>

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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Figures in Rand	2021	2020
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### 24. Government grants and subsidies (continued)

The purpose of the grant as is to assist rural district municipalities in setting up their road asset management systems, and collect road and traffic data in line with the Road Infrastructure Strategic Framework for South Africa (RISFSA).

### 25. Government levy relief

Government levy relief	489 171	559 159
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Skill Development Levy holiday

In order to assist with alleviating any cash flow burden arising as a result of the COVID-19 pandemic, as well as reducing the burden of payroll taxes in the short term, Government implemented a four-month holiday (non-payment) for skills development levy contributions (1 per cent of monthly payroll) made by employers, beginning 01 May 2020 and ending 31 August 2020. The Municipality has disclosed the relief thereof within revenue from non-exchange transactions

### 26. Public contributions and donations

Donations received	422 844	4 512 165
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The following donations were received by the district municipality in the 2020/21 financial year:

- Two mist blowers were received from COGTA as a donation amounting to R20 400.
- A container office was received from DBSA as a donation, the value of the container is R175 178.
- Personal Protective Equipment(PPE) items to the value of R227 266 were received from SALGA

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>27. Employee related costs</b>		
Basic	221 132 483	209 195 670
Medical aid - company contributions	23 248 828	21 907 794
UIF	1 339 533	1 324 623
SDL	3 053 815	2 953 949
Leave pay provision charge	(4 556 118)	4 941 528
COVID-19 Danger Allowance	5 181 000	4 439 500
Defined contribution plans	8 463 258	7 311 406
Overtime payments	28 783 987	22 652 535
Bonus	17 757 878	16 783 847
Car allowance	16 955 784	15 166 752
Housing benefits and allowances	945 347	1 153 189
Burgaining council	82 744	78 605
Pension fund contributions	42 731 266	40 753 528
Cellphone allowance	633 000	643 500
Stand-by allowance	6 453 241	2 949 148
Shift allowance	7 310 605	7 007 008
	<b>379 516 651</b>	<b>359 262 582</b>

### Remuneration of Municipal Manager

Basic Salary	696 508	775 190
Car Allowance	168 000	151 038
Contributions to UIF, Medical and Pension Funds	145 872	148 877
Housing allowance	60 000	32 608
Annual Bonus	58 042	56 461
	<b>1 128 422</b>	<b>1 164 174</b>

*The prior year remuneration figures have been realigned to 2019/20 VIP payroll reports, the realignment does not have any impact on total employee cost figure*

### Remuneration of Chief Financial Officer

Basic Salary	790 414	791 407
Contributions to UIF, Medical and Pension Funds	143 063	144 288
Cellphone allowance	18 000	18 000
Annual bonus	48 632	46 627
	<b>1 000 109</b>	<b>1 000 322</b>

*The prior year remuneration figures have been realigned to 2019/20 VIP payroll reports, the realignment does not have any impact on total employee cost figure*

### Remuneration of Senior Manager - Corporate Services

Basic Salary	583 027	592 084
Car Allowance	84 000	79 564
Contributions to UIF, Medical and Pension Funds	114 365	117 281
Housing allowance	151 381	146 552
Annual Bonus	48 632	46 622
	<b>981 405</b>	<b>982 103</b>

*The prior year remuneration figures have been realigned to 2019/20 VIP payroll reports, the realignment does not have any impact on total employee cost figure*

### Remuneration of Senior Manager - Community services

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>27. Employee related costs (continued)</b>		
Basic Salary	615 560	604 433
Car Allowance	168 000	120 017
Contributions to UIF, Medical and Pension Funds	149 690	120 126
Annual bonus	48 632	46 622
Cellphone allowance	18 000	18 000
	<b>999 882</b>	<b>909 198</b>

*The prior year remuneration figures have been realigned to 2019/20 VIP payroll reports, the realignment does not have any impact on total employee cost figure*

### Remuneration of Senior Manager - Technical Services

Basic Salary	595 004	593 026
Car Allowance	160 380	152 595
Cellphone allowance	18 000	18 000
Contributions to UIF, Medical and Pension Funds	114 173	117 100
Housing Allowance	112 218	119 704
	<b>999 775</b>	<b>1 000 425</b>

*The prior year remuneration figures have been realigned to 2019/20 VIP payroll reports, the realignment does not have any impact on total employee cost figure*

### Remuneration of Senior Manager - Chief Audit Executive

Basic Salary	583 589	519 780
Car Allowance	168 000	82 920
Contributions to UIF, Medical and Pension Funds	149 690	97 396
Cellphone Allowance	18 000	15 000
Housing Allowance	36 000	94 628
	<b>955 279</b>	<b>809 724</b>

*The prior year remuneration figures have been realigned to 2019/20 VIP payroll reports, the realignment does not have any impact on total employee cost figure*

### Remuneration of Senior Manager - Planning and Development

Basic Salary	-	594 359
Car Allowance	-	54 000
Cellphone allowance	-	13 500
Contributions to UIF, Medical and Pension Funds	-	96 638
Housing allowance	-	103 049
	-	<b>861 546</b>

The position of Senior Manager - Planning and development has been vacant for full 2020/21 financial year.

### Remuneration of Acting Senior Manager - Planning and Development

Basic Salary	-	123 059
Car Allowance	-	24 000
Contributions to UIF, Medical and Pension Funds	-	28 897
Cellphone Allowance	-	2 400
	-	<b>178 356</b>

*Mr T.A Mpa served as the acting Senior Manager: Planning and Development from May 2020 to June 2020.*

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>28. Remuneration of councillors</b>		
Executive Mayor	1 099 139	1 100 229
Single Whip	835 599	836 448
Mayoral Committee Members	3 835 276	4 988 413
Speaker	888 326	889 209
Councillors	6 267 164	4 973 378
	<b>12 925 504</b>	<b>12 787 677</b>

### In-kind benefits

The municipality has granted the right of use of municipal vehicles to the Municipal Mayor and Municipal Speaker.

### Additional information

The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

### 29. Depreciation and amortisation

Property, plant and equipment	200 885 225	202 119 457
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### 30. Impairment of assets

#### Impairments

Property, plant and equipment	10 972 301	20 533 006
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### 31. Finance costs

Interest	11 215 584	7 464 004
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### 32. Repairs and maintenance

### 33. Bulk purchases

Water	7 964 786	12 126 482
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The district municipality purchases portable water from Sedibeng Water.



# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>35. General expenses</b>		
Assessment rates & municipal charges	2 304 495	2 132 226
Auditors remuneration	7 871 136	8 144 232
Bank charges	459 313	198 938
Consumables	730 048	6 386 533
Hire	19 664 211	82 100
Insurance	5 816 755	1 912 320
IT expenses	4 597 967	3 574 319
Marketing	3 012 966	1 133 725
Motor vehicle expenses	479 018	443 061
Fuel and oil	6 023 714	6 239 678
Placement fees	8 845	51 505
Printing and stationery	876 534	559 039
Subscriptions and membership fees	4 060 677	3 818 612
Telephone and fax	5 224 786	4 017 031
Transport and freight	151 327	363 034
Training	3 805 966	1 781 709
Subsistence and travel	635 531	2 615 728
Electricity	12 668 073	13 044 757
Protective clothing and uniform	5 491 182	3 123 911
Accommodation	516 323	3 085 065
Sitting allowance	438 245	265 222
	<b>84 837 112</b>	<b>62 972 745</b>

\*COVID-19 related expenses were incorrectly classified under protective clothing in the prior year, refer to note 44 for prior year reclassification note.

\*Sitting allowance were incorrectly classified under subsistence and travel, and council remuneration in the prior year, refer to note 44 for prior year reclassification note.

### 36. Auditors' remuneration

Fees	7 871 136	8 144 232
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### 37. Operating surplus

Operating surplus for the year is stated after accounting for the following:

#### Operating lease charges

Premises		
• Parking	336 000	321 300
Equipment		
• Printing and photocopying	492 131	422 823
	<b>828 131</b>	<b>744 123</b>

Loss on sale of property, plant and equipment	(13 928 702)	(41 750 193)
Impairment on property, plant and equipment	10 972 301	20 533 006
Depreciation on property, plant and equipment	200 885 225	202 119 457
Employee costs	392 442 155	372 050 259

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>38. Cash generated from operations</b>		
Surplus	187 694 757	21 552 235
<b>Adjustments for:</b>		
Depreciation and amortisation	200 885 225	202 119 457
Loss on write off of assets	13 928 702	41 750 193
Fair value adjustments	-	(488 791)
Impairment deficit	10 972 301	20 533 006
Movements in retirement benefit assets and liabilities	22 257 155	14 130 543
Movements in provisions	1 725 599	1 964 472
Public contribution and donation	(422 844)	(4 512 165)
Government levy relief	(489 171)	(559 159)
other non-cash items	896 598	5 396 977
<b>Changes in working capital:</b>		
Inventories	(71 897 049)	75 613 965
Receivables from exchange transactions	1 235 050	(14 387 706)
Other receivables from non-exchange transactions	(676 188)	615 025
Payable from exchange transactions	42 930 688	(5 486 485)
VAT	15 266 554	(7 771 087)
Unspent conditional grants and receipts	(41 878 031)	23 431 188
	<b>382 429 346</b>	<b>373 901 668</b>

### 39. Financial instruments disclosure

#### Categories of financial instruments

#### 2021

##### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	17 072 116	17 072 116
Cash and cash equivalents	580 912 146	-	580 912 146
Other financial asset	311 141	-	311 141
	<b>581 223 287</b>	<b>17 072 116</b>	<b>598 295 403</b>

##### Financial liabilities

	At fair value	Total
Trade and other payables from exchange transactions	123 265 312	123 265 312

#### 2020

##### Financial assets

	At fair value	At amortised cost	Total
Trade and other receivables from exchange transactions	-	2 208 203	2 208 203
Cash and cash equivalents	439 297 561	-	439 297 561
Other financial asset	295 993	-	295 993
	<b>439 593 554</b>	<b>2 208 203</b>	<b>441 801 757</b>

##### Financial liabilities

	At fair value	Total
Trade and other payables from exchange transactions	141 835 509	141 835 509

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>39. Financial instruments disclosure (continued)</b>		
<b>40. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	354 981 400	330 702 301
<b>Total capital commitments</b>		
Already contracted for but not provided for	354 981 400	330 702 301
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	354 981 400	330 702 301

This committed expenditure relates to property and will be financed by inter alia the capital infrastructure grants the municipality receives, existing cash resources, funds internally generated. The commitments disclosed are inclusive of VAT.

### Operating leases - as lessee (expense)

#### Lease for parking space:

The municipality entered into an operating lease agreement with Aliangy Enterprise CC for the rental of parking space. The lease agreement was for one (1) year and is currently on a month to month basis, therefore the disclosure for minimum lease commitments due is impracticable.

#### Lease for photocopy and printing equipment:

The Municipality entered into operating leases for the rental of printing equipment. The lease agreement is between Konica Minolta and Ngaka Modiri Molema District Municipality. The Municipality does not have an option to purchase the leased asset at the expiry of the lease period however the municipality has an option to renew the lease after expiry at lower rental rates. The lease agreement duration expired on 30 May 2021, and the municipality has not renewed the contract and the contract is currently running on month to month basis, therefore the disclosure for minimum lease commitments due is impracticable.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 41. Contingencies

#### Contingent Liabilities:

##### 1. P. Semanya

**R3 000 000**

There was a Ministerial gazette from the Department of Water and Sanitation dated 15 October 2014, which effected a directive whereby Sedibeng Water were to take over the provision of bulk water, operational, maintenance, war on leaks and water tankering for a period of five (5) years from Ngaka Modiri Molema District Municipality and the municipality's grants were diverted to Sedibeng as payments. Ngaka Modiri Molema District Municipality should therefore not have been paying Sedibeng Water for the above services and as such no liability is recognised in the 2019/20 financials. Following Sedibeng's response through its representative Thipa Attorneys, the municipality has disclosed the amount of R469 333 431 as a contingent liability relating to Operation and Maintenance cost Sedibeng claims is due from Ngaka Modiri Molema District Municipality.

##### 2. T Gwabeni

**R2 021 184**

In February 2011 Mr. Gwabeni (former Executive Mayor of the NMMDM) instituted a claim of R2 021 184 against the NMMDM for outstanding term payment and legal fees incurred for his defense on an allegation faced in a criminal case in 2011.

NMMDM is opposing this matter because at the time he instituted the claim, his contract had already expired therefore he was not an employee of the NMMDM. This matter is pending as correspondence received in November 2018 that the applicant has referred this matter to the MEC for Local Government and Housing and Office of the Premier.

Uncertainty exists around the ultimate timing of the outflow, if any, as this will be determined by the decision passed by the MEC for Local Government and Housing and Office of the Premier. No legal fees and disbursements will be incurred as the matter is being handled by internal legal counsel. Additionally there is no possibility of any reimbursements."

##### 3. Al Jaza Investments (Pty) Ltd

**R6 185 943**

On 12 February 2015, NMMDM received a letter from Ditsobotla Local Municipality informing them that attorneys for Al Jaza Investments (Pty) Ltd issued a letter of demand stating that their property was damaged by fire as a result of the NMMDM's failure to provide adequate water tankering and equipment to oust off the fire and that the fire services personnel did not have sufficient protective clothing. As a result, their client suffered damages to the tune of R6 185 942,80. The complainant did not appear in court for the matter and the case was struck off the roll with costs. In October 2018, the court taxed the costs involved and requested Al Jaza to settle these. Thereafter an application was made for trial by Al Jaza Investments in March 2019 but the Municipality responded that the complainant needs to settle the taxed costs before pursuing a new case.

Uncertainty exists around the timing of the outflow if any, as Al Jaza Investments needs to first settle the taxed costs and thereafter secure a trial date for the matter to be heard. The municipality is opposing this case. Estimated legal costs and disbursements to be paid to M.E Tlou attorneys are R331 000. There is no possibility of reimbursements."

##### 4. Naphtronics

**R19 796 158**

"In 2015, Naphtronics was appointed to render security services irregularly due to SCM processes not being followed. The municipality then elected to cancel their contract in light of the irregularity but Naphtronics referred the matter to court in March 2018, claiming an amount of R19 796 158,33. The matter was dismissed in favor of the Municipality, however Naphtronics proceeded to apply for review at the North West High Court. The matter is still ongoing and yet to be heard by the Court for a determination of a just equitable cost to remedy the matter.

Uncertainty exists around the timing of the outflow, which will be determined by the court ruling. The estimated legal costs and disbursements to be paid to Motshabi & Associates for this matter is R1 000 000. There is no possibility of reimbursements at this stage."

##### 5. Violet Tshetlho

**R15 000**

"In April 2014 V Tshetlho instituted a claim of R15 000 against NMMDM as result of a collision with a pothole on the Steve Biko Road, Mmabatho which is in the area of jurisdiction and maintenance of the municipality. The claimant alleges that her vehicle sustained these damages as a result of negligence on the part of the municipality due to failure to maintain roads, repair broken/damaged surfaces and substandard work/poor quality. The municipality is disputing on the merits that the road in question does not fall within their jurisdiction and is not responsible for maintenance and thus the case should be dismissed against the municipality.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 41. Contingencies (continued)

The matter is ongoing, the municipality has however applied to Court to re-join the applications in terms of rule 28 of uniform court rules and still awaiting application outcome.

The uncertainty exists around the timing and amount of the outflow as this will be determined by the court outcome and the attorneys have indicated that case has good prospects of being in favor of the municipality. The estimated legal costs and disbursements by Semaushu Attorneys is R30 000 in order to conclude the matter. There is no possibility of reimbursement at this stage."

#### 6. Pelken CC

**R938 858**

"The NMMDM received a notice requesting the appointment of an Arbitrator to facilitate an alternative dispute resolution mechanism with Mr Derik Pelsler emanating from alleged outstanding interest of R938 858 on the capital amount for the farm purchased by the municipality. On 29 June 2018, the appointed arbitrator issue an arbitration agreement. Currently the municipality is awaiting a response from Pelken's attorneys for the draft variation and draft rules to govern the arbitration proceedings. The municipality is awaiting the Arbitration hearing date in order to oppose this matter.

Uncertainties exist around timing of the outflow, if any, as this will be dependent on the outcome of the arbitration hearing. The estimated legal costs and disbursements to be paid to M.E Tlou attorneys is R192 067. There is no possibility of reimbursements at this stage."

#### 7. Batlhalefi Projects

**R17 722 191**

"The Mahikeng Local Municipality appointed Batlhalefi Projects in December 2011 to upgrade roads and infrastructure in Mahikeng and the contract amount was R 14 000 000,00. Batlhalefi Projects extended its scope to upgrade the roads and infrastructure that was not part of the agreement and claimed an excessive amount of R 17 722 191. This matter was set down for Arbitration for 19-23 August 2019 but Batlhalefi did not attend the Arbitration hearing. Thus the matter has been postponed due to lack of payment by Batlhalefi for arbitrating sitting. Uncertainties exist around the timing of the outflow, if any, as this will be dependent on the outcome of the arbitration hearing.

The estimated legal costs and disbursements to be paid to Moetsi Maredi Inc. are R700 000. There is no possibility of reimbursements at this stage."

#### 8. Khwethayo Construction JV

**R5 498 434**

"In November 2013, Khwethayo Construction instituted a claim of R5 498 434 for termination of contract and outstanding payments in respect of consulting fees for the construction of wastewater treatment plants in Dinokana Village. On the 3rd of December 2013 the Municipal Attorney submitted an opinion suggesting settlement between the two parties. The opinion is currently being processed awaiting the other parties decision to accept or deny the proposed settlement. Correspondence in this regard was sent to Khwethayo in October 2020, the municipality is awaiting their response.

Uncertainty exists around the timing of the outflow as this will be determined by the applicants response to the proposed settlement. Estimated legal costs and disbursements to be paid to Motshabi & Associates to conclude this matter are R200 000. There is no possibility of reimbursements."

#### 9. J. Y Gutta

**R2 235 379**

"Mr J.Y Gutta instituted a claim of R2 235 379 against the NMMDM as a 2nd defendant in the matter due to the damage of his property as a result of fire set by members of the community inclusive of the NMMDM and the Mafikeng Local Municipality during July 2010. Allegedly, the fire was set after a cleaning operation was conducted to commemorate Nelson Mandela day. A draft amendment of a plea has been prepared and will be served as soon as further action is taken on the matter.

Uncertainty exists around the timing of any outflow dependent on the outcome of the Court ruling. The estimated legal fees and disbursements to be paid to Moetsi Maredi for R300 000. There is no possibility of reimbursement at this stage. "

#### 10. Bagorosi Projects (Pty) Ltd

**R3 387 950**

"In August 2014, Bagorosi Projects (Pty) Ltd submitted a letter of demand to the municipality for R3 387 950 for invoices relating to services rendered through the construction of VIP toilets in Tlhabologo Village in Mafikeng. The municipality is disputing these invoices but no further correspondence has been received from complainant to date. Uncertainty relates to the timing of an outflow, if any, dependent on further correspondence to be received from Bagorosi. The estimated legal fees and disbursements to be paid to Moetsi Maredi for R300 000. There is no possibility of reimbursement at this stage."

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 41. Contingencies (continued)

#### 11. Fresh Harvest (Pty)

**R650 000**

"A claim was instituted against the municipality for non-payment of invoices for services rendered for R650 000 on performing a feasibility study to assess the fresh produce market in the District. The complainant issued summons in July 2010 against the municipality and the matter was opposed. Thereafter the municipality instituted a counter claim in court, where a witness was brought in to testify for in March 2015. Thereafter the matter was postponed because the witness brought forward was ill-disposed thus the case was postponed sine-die.

Uncertainty exists around the timing of the outflow, if any, as this will be determined when the matter proceeds in court. The estimated legal costs and disbursements to be paid to Semaushu Attorneys is R150 000. There is no possibility of reimbursements at this stage."

#### 12. Bokgabane Initiative Project

**R190 000**

"During the 15th to the 19th of July 2013, Bokgabane Initiative Project made a presentation to the GED planning showcasing sewing lessons that could be provided to uplift the community. They were advised not to proceed until an order and appointment letter were issued by the municipality. Against the advise of the municipality, they proceeded to conduct training in the District and subsequently submitted invoices for the training services rendered in February 2016 which were left unpaid.

Due to the non-payment of R190 000 for service rendered, summons were issued to the municipality in this regard and the matter was opposed. Bokgabane then referred the matter to the MEC in January 2019.

The ultimate outcome is dependent MEC's decision, timing of which cannot be determined until the decision is handed down.

The estimated legal costs and disbursements to be paid to Semaushu Attorneys is R150 000. There is no possibility of reimbursements at this stage."

#### 13. Tebogo Shomolekae

**R24 618**

"Shomolekae Tebogo submitted a claim of R8 850, including interest, against the NMMDM alleging that her vehicle sustained damages as a result of potholes in Makgobistad/ Bray Road. Summons was received by the Municipality in May 2014. Thereafter the municipality applied joinder for Department of Public Works as the road and road maintenance were DPW's responsibility. The NMMDM application to court meant that DPW was solely responsible for the claim. Tebogo did not proceed with the matter and no feedback was received to date from complainant. Uncertainty exists around the timing of outflow if any dependent on the feedback to be received and the outcome of the court proceedings. The matter was opposed and applicant has not pursued any further action to date. Estimated legal fees and disbursements to be paid to Semaushu attorneys are estimated to be R20 000. There is no possibility of reimbursement. "

#### 14. Dr Maduo

**R986 386**

"Dr Maduo's employment contract was terminated following the end of term of the then Executive Mayor - T Gwabeni. He then submitted a letter of demand in December 2011 and NMMDM submitted its defense through an answering affidavit in 2013 opposing this. In February 2019, Dr Maduo was expected to file his affidavit response but this has not been done to date. He is claiming payment of R986 386 for the remainder of his contract duration and argues that he was on a fixed term contract and his appointment was not linked to that of the Executive Mayor. The municipality is opposing this matter as his appointment was linked to the Executive Mayor's term. The municipality is awaiting further correspondence from Dr Maduo currently. Uncertainty exists around the ultimate timing of an outflow, if any, as this will be determined when in Court. The estimated legal fees and disbursements to be paid to Semaushu Attorneys is R250 000. There is no possibility of reimbursements at this stage."

#### 15. Eric Louw Attorneys

**R327 800**

Eric Louw Attorneys issued invoices amounting to R327 799,82 for payment by the NMMDM claiming that on or around 2009 they were appointed by the then Executive Mayor – Themba Gwabeni as delegated on an urgent basis to set aside the decision of the Provincial Government on the invocation of section 139 (1) (b) of the Constitution of the Republic of South Africa, 1996. In 2016, after the appointment of Nono Dince as Administrator, the attorneys made a formal enquiry following up on the payment of the invoices. The municipality disputed invoices as the legal fees related to the attorneys representing T Gwabeni in a civil and criminal case in his personal capacity and not in his capacity as the MM. The matter is on-going. They referred the matter to the office of the MEC and the ultimate outcome will be determined once a response is received. Matter is being handled by internal legal counsel therefore no additional legal costs or disbursements will be incurred. There is no possibility of reimbursement.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 41. Contingencies (continued)

16. Beyond Build Construction JV **R2 875 302** A  
dispute exists over a letter of demand from Beyond Build Construction in May 2015 for the payment of R2 875 302,21 relating to an outstanding payment certificate for the construction of VIP toilets in Dinokana Village. The municipality attorneys then requested a Practical Completion Certificate from Beyond Build as proof of work done but this was not submitted. Beyond Build then reissued their letter of demand through their attorneys, Sifumba Attorneys in May 2019. The NMMDM then denied the liability and instituted a counter claim for the same amount in July 2019 thus the matter is on-going as we await a response from their attorneys in this regard. Uncertainty exists around the timing of any outflow dependent on the response from Sifumba Attorneys. M.E Tlou attorneys has estimated legal fee and disbursements to the tune of R184 676. There is no possibility of reimbursement at this stage.

17. Johannes Delpont **R28 171**  
"In February 2018 a claim of R28 171 was filed against NMMDM for vehicle damages sustained as a result of the potholes in Ditsobotla Local Municipality. The NMMDM opposed this matter in court through filing an intention to defend, as NMMDM is only responsible for gravel roads, but the complainant has not pursued the matter further since the initial letter of demand. The ultimate outcome is dependent on Mr Delpont approaching the court for a trial date thus uncertainty exists around the timing of an outflow, if any, to Mr Delpont. The estimated legal fees and disbursements to be paid to Semaushu Attorneys is R20 000. There is no possibility of reimbursements at this stage."

18. Geldenhuys et al **R201 341 200**  
"In September 2007, the NMMDM entered into a purchase agreement with Geldenhuys to purchase its farm containing multiple boreholes to abstract water. Subsequent to signing the agreement, the municipality withdrew its decision to purchase as the purchase price was too high. In June 2011, Geldenhuys then approached the Court with this matter but the purchase agreement specifically stated that all disagreements should be handled through an arbitration and not the courts. Parties agreed to remove the case off the court's roll due to the arbitration clause. Thereafter Geldenhuys approached the then Minister of Local Government, Pravin Gordhan to intervene but the intervention did not yield any results. Subsequently the municipality applied to court to terminate the purchase agreement in February 2020. The municipality applied to court for application to terminate claim and consequent the sale. A court date was set for 29 November 2021 and the matter could not proceed due to the farm owner changing legal council and asked the court's indulgence to appoint new legal council.

The claimant claimed an amount of R201 341 200 being the agreed purchase price. Therefore, uncertainty exists around the timing of the outflow, if any, dependent on the court's decision. The estimated legal costs and disbursements to be paid to Mabalane Molefe Attorneys is R800 000. There is no possibility of reimbursements at this stage."

19. Aulse Matlape **R5 500 000**  
"A Matlape instituted a delictual claim against the municipality and other for an amount of R5 500 000. This matter appeared before court on the 11th February 2019, for pre-trial meeting and the applicant together with their Attorney's didn't appear subsequently this matter was struck off the roll. The Attorneys for the applicant have since applied for the matter to be re-enrolled. The municipality is currently awaiting confirmation from Court.

The uncertainty exists around the timing of the outflow, if any, as this will be determined by the court's re-enlisting the case back in the roll. The estimated legal costs and disbursements by Moetsi Attorneys is R100 000 in order to conclude the matter. There is no possibility of reimbursement at this stage."

20. Lele & Tshidi **R668 273**  
Lele and Tshidi have issued a letter of demand, demanding release of retention money, amounting to R668 272,9 for Mogoswane projects. However, the municipality is disputing the release of the retention, because there were poor workmanship and damage to property, whilst Lele and Tshidi were on site. The municipality have therefore requested them to quantify how they arrived at R668 272,70, whereas there are damages incurred at the project. The supplier and the municipality then agreed that the supplier will repair the damages however the supplier failed to such and the municipality then had to undertake the repairs which surpassed the amount claimed by the supplier. The uncertainty exists around timing and amount of the outflow as this will be determined by the submissions made by the supplier and further court proceedings, if any. The municipality anticipates that the matter will be closed without any payment made due to the strong case the municipality has. There are no estimated legal costs at this stage as the matter awaits response from the supplier and no case has been instituted legally by the supplier.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 41. Contingencies (continued)

#### 21. Quantibuild (Pty) Ltd

**R2 527 647**

"In January 2019 Quantibuild received an arbitration award of R2 527 647 in their favor against the municipality for outstanding payments relating to retentions and suspension of work due to labour unrest for the erection of wastewater treatment plants in Groot Marico. The municipality opposed this award as the amount awarded is excessive. The applicant then made an application to the North-West High Court for summary judgement on the matter on 25 February 2020 and matter was heard in court on the 20th November 2020. Currently judgement is awaited from the Court. Uncertainty exists around the timing of the outflow, if any, as this will be dependent on the court's judgement. The estimated legal fees and disbursements to be paid to Semaushu Attorneys is R500 000. There is no possibility of reimbursements at this stage."

#### 22. Jan Butinyane Majako

**R70 000**

"Jan Butinyane Majako & 4 others took the municipality for arbitration relating to unfair dismissal. They were successful in the arbitration and the municipality was ordered to reinstate them and pay compensation of R70 000. In 2017, the applicants certified the arbitration award with the director of CCMA with the view to force the municipality to reinstate them but failed to enforce it. The matter is on-going and uncertainty exists regarding the timing of the outflow, if any, dependent on the ruling passed.

The matter is being handled by the NMMDM internal legal counsel therefore there are no additional legal costs or disbursements are expected. There is no possibility of reimbursement."

#### 23. T.Lesinyane

**R480 000**

"Mr T Lesenyane referred an unfair labour practice dispute to the bargaining council against the municipality. The applicant was then awarded R480 000 by the SALGBC in September 2019 but the municipality decided to approach the labour court to review the arbitration award.

The municipality has filed for a review at the Labour Court for this case and is currently awaiting a trial date. Uncertainty exists regarding the timing of the outflow, if any, dependent on the court ruling. The estimated legal costs and disbursements to be paid to Tiro attorneys is R200 000. The municipality has prospects of success in the matter as the commissioner who presided over the matter did not have jurisdiction to do so thus a possibility of reimbursement of legal costs exists given the merits of the case."

#### 24. Ms Phiri

**R900 557**

"During 2019, Ms Pearl Phiri referred an unfair labour practice dispute to the bargaining council. The applicant was awarded R900 557 and a subsequent salary adjustment by the SALGBC but the municipality decided to approach the labour court to review the arbitration award. The municipality has filed for a review at the Labour Court for this case and is currently awaiting a court date. Uncertainty exists regarding the timing of the outflow, if any, dependent on the court ruling.

The municipality has prospects of success in the matter due to Ms Phiri not filing opposing papers for over a year. It is therefore likely that the matter will be enrolled in an unopposed role. Additionally, this matter is also pending at the CCMA after a certificate was issued at conciliation stating that the matter remains unresolved. Ms Phiri was therefore expected to refer for arbitration within 90 days and to date this has not been done, thus a possibility of reimbursement of legal costs exists given the merits of the case. The estimated legal fees and disbursements to be paid to M.E Tlou attorneys is R250 337."

#### 5. Keitumetsi Moroka and others

**R5 380 078**

"On 1 November 2019 a Contempt of Court Application was instituted by Keitumetse Moroka and eight others under Case Number J2230/19 against NMMDM for R5 380 078.

Ms Keitumetse Moroka and eight others brought a contempt of court application to the Labour Court seeking a declaratory order to hold the municipality in contempt of court for failing to implement:

1. The 20th August 2015 Court Order Settlement Agreement under Case No. J1568/2015 - Financial Loss suffered as a result of non-implementation of arbitration award.

2. The 27th May 2016 Court Order Settlement Agreement under Case No. 290/2016 - Pension Fund Benefit Loss during a period of the applicants unfair dismissal.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
-----------------	------	------

### 41. Contingencies (continued)

3. The 26th July 2016 Court Order Settlement Agreement under Case No. J1568/15 – Total losses incurred by the applicants in terms of their various other lost benefits.

4. That the Municipality be ordered to make payment of the outstanding balance in terms of partial payment made to the applicants previous attorneys.

The municipality fully complied with the above settlement agreements (court orders) and paid the settlement agreements into the applicant attorneys bank account, Mr Ramphele. The settlement was in full and final. However, the municipality has opposed the contempt of court application. Both parties have since filed their heads of argument in the matter and we are awaiting a trial date.

Uncertainty exists around the timing of outflow, if any, dependent on the court's ruling. Estimated legal costs and disbursements to be paid to Kgomo Attorneys is R350 000. There is a possibility of reimbursement of costs based on the merits of the case."

26. Sedibeng Water

**R557 974 957**

"A letter of demand was issued by Sedibeng Water through its representative, Thipa Attorneys for the non-payment of invoices for operations and maintenance costs on water infrastructure amounting to R557 974 957. A Ministerial gazette from the Department of Water and Sanitation dated 15 October 2014, effected a directive whereby Sedibeng Water were to take over

the provision of bulk water, operational, maintenance, war on leaks and water tankering for a period of five (5) years from Ngaka Modiri Molema District Municipality and the municipality's grants were to be diverted to Sedibeng as payments.

Therefore it is against this background that the NMMDM is disputing these invoices and as such no liability is recognized in the 2019/20 financials.

The ultimate outcome of this matter cannot not be determined as this will be dependent on on-going mediation between both parties. This matter is being handled by internal legal counsel thus no additional legal costs or disbursements will be incurred.

Additionally there is no possibility of any reimbursements."

27. Florida Nshwe

**R24 513**

"Florida Nshwe submitted an accident claim of R24 513 against the Municipality allegedly caused by one the municipal staff driving recklessly. Summons was received on May 2018, and the NMMDM filed for intention to defend. Thereafter, consultations were held with the accused official who disputed the claim made by Florida Nshwe. The matter is being opposed and the complainant has not pursued any further action to date. Uncertainty exists around the timing of outflows as this will be determined based on whether further action will be taken. The matter is being handled by internal counsel therefore no additional legal fees or disbursements are expected. There is no possibility of reimbursement at this stage. "

### Contingent Assets:

A contingent asset is a possible asset that arises from past events, and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity.

1.Tshenolo Resources JV

**11 228 653**

In November 2013 a claim for termination of contract and claim of additional payments made in respect of the tender was identified by the NMMDM. Consultation were held for purpose of drawing up Summons in order to claim the amount owed to the NMMDM. Summons were prepared and the matter is pending for further particulars.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021                      2020

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### 42. Related parties

#### Relationships

Accounting Officer

Members of key management

Refer to accounting officer's report note

O.A. Losaba - Municipal Manager

L.I. Mosiane - Chief Audit Executive

S.S. Mphato - Chief Financial Officer

M.J. Rassool - Infrastructure Development and Maintenance

M.K. Mahlobo - Development and Planning

M.D. Dambuza - Corporate Resource Support Services

SM Nkadimang - Community Services

T.A. Mpa - Development and Town Planning

#### Related party balances

##### Transactions with members of key management - salaries refer to note ...

Losaba OA	1 128 422	1 164 174
Mphato SS	1 000 109	1 000 322
Dambuza MD	981 405	982 103
Nkadimeng SM	999 882	909 198
Mahlobo K	-	861 546
Rassool MJ	999 775	1 000 425
Mosiane LI	999 802	809 724
Mpa TA	-	178 356

#### Compensation to accounting officer and other key management

Defined contribution plans

661 048                      609 124

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 42. Related parties (continued)

#### Remuneration of management

#### Councillors & Mayoral committee members

2021

Name	Basic salary	Other short-term employee benefits	Post-employment benefits	Termination benefits	Other long-term benefits	Total
Executive Mayor	714 927	251 004	107 239	18 228	7 742	1 099 140
Speaker	551 530	209 683	82 730	38 056	6 328	888 327
Single Whip	519 786	199 352	77 968	32 540	5 952	835 598
Mayoral committee members	2 492 172	873 512	316 640	116 399	27 950	3 826 673
Other councillors	4 234 162	1 575 675	278 978	129 788	48 561	6 267 164
	<b>8 512 577</b>	<b>3 109 226</b>	<b>863 555</b>	<b>335 011</b>	<b>96 533</b>	<b>12 916 902</b>

2020

Name	Basic salary	Other short-term employee benefits	Post-employment benefits	Termination benefits	Other long-term benefits	Total
Executive Mayor	735 102	251 004	87 063	18 228	8 832	1 100 229
Speaker	569 815	209 682	66 910	35 590	7 212	889 209
Single Whip	541 630	199 352	61 906	26 759	6 800	836 447
Mayoral Committee Members	3 470 503	978 099	250 129	114 395	42 509	4 855 635
Other councillors	3 171 888	1 565 780	183 307	110 927	43 476	5 075 378
	<b>8 488 938</b>	<b>3 203 917</b>	<b>649 315</b>	<b>305 899</b>	<b>108 829</b>	<b>12 756 898</b>

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

### 43. Change in estimate

#### Property, plant and equipment

##### Property, plant and equipment:

The estimated useful lives were reviewed in the current year and this resulted in a change in accounting estimate as stated below:

##### Depreciation Expenditure

The estimated useful lives of Buildings, Infrastructure and Other assets were revised on 30 June 2021. Adjustments to the residual values and useful lives affect the amount for the current year and is expected to affect future periods as well. This was done based on the verification of the condition and assessing the remaining useful life of the asset. The adjustments are as follows:

Statement of Financial Position	2021	Total
(Increase) / Decrease Accumulated depreciation	3 837 210	3 837 210
Statement of Financial Performance	2021	Total
Increase / (Decrease) expense	(3 837 210)	(3 837 210)

### 44. Prior period errors

The effect of correction of error to Property, plant and equipment is as follows:

<b>Statement of financial position</b>		
(Increase) / decrease in Accumulated surplus	-	(18 972 855)
Increase / (decrease) in Property, Plant and Equipment	-	12 068 080
Increase / (decrease) in VAT Receivable	-	10 674 524
(Increase) / decrease in payables from exchange	-	(13 972 766)
Increase / (decrease) in inventory	-	(19 104 615)
Increase / (decrease) in Cash and cash equivalents	-	5 938 542
increase / (decrease) in receivables from exchange transactions	-	365 463
(increase) / decrease in unspent conditional grants	-	858 874
<b>Statement of financial performance</b>		
Increase / (decrease) in Depreciation	-	1 507 438
(increase) / decrease in revenue from exchange transactions	-	(95 443)
(increase) / decrease in revenue from non-exchange transactions	-	(858 874)
Increase / (decrease) in general expenditures	-	237 830
Increase / (decrease) in contracted services	-	(2 517 942)
Increase / (decrease) in Impairment	-	(288 906)
Increase / (decrease) in finance cost	-	608 807
Increase / (decrease) in remuneration of councillors	-	132 778
Increase / (decrease) in employee cost	-	857 970
Increase / (decrease) in bulk purchases	-	1 117 697
Increase / (decrease) in Impairment	-	(17 441)

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 44. Prior period errors (continued)

#### Irregular expenditure

Opening balance	- 3 599 754 848
Prior period adjustment - 2019/20	- (43 717 806)
Correction of error - 2019/20	- 1 042 582
Correction of error -2018/2019	- 6 893 177
<b>Restated opening balance</b>	<b>- 3 563 972 801</b>

#### Suppliers

Errors were identified in the prior year audit report from the Auditor General regarding transactions that were recorded in the incorrect financial year, duplicates that were identified and issues surrounding accuracy.

### 45. 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

2020

	Note	As previously reported	Correction of error	Re-classification	Restated
<b>CURRENT ASSETS:</b>					
Inventories		91 247 846	(19 104 615)	-	72 143 231
VAT receivable		25 775 270	10 674 524	-	36 449 794
Receivable from exchange transactions		12 556 087	365 463	4 150 566	17 072 116
Receivable from non-exchange transactions		2 535 724	-	(1 720 738)	814 986
Cash and cash equivalents		455 654 353	5 938 542	-	461 592 895
<b>NON-CURRENT ASSETS:</b>					
Property, plant and equipment		5 046 860 240	12 068 081	-	5 058 928 321
<b>CURRENT LIABILITIES:</b>					
Payables from exchange transactions:					
- Trade payables		(141 835 509)	(28 209 308)	-	(170 044 817)
- Retention fees		(51 573 904)	20 334 813	-	(31 239 091)
- Salary control account		7 543 423	(5 113 595)	-	2 429 828
- Bonus accrual		(9 881 447)	28 924	-	(9 852 523)
- Employee related accrual		(3 490 000)	(1 013 600)	-	(4 503 600)
Employee benefit obligation		(141 826)	-	(1 294 532)	(1 436 358)
Unspent conditional grants and receipts		(42 736 905)	858 874	-	(41 878 031)
Accumulated Surplus		(5 272 759 550)	22 144 753	-	(5 250 614 797)
<b>NON-CURRENT LIABILITIES:</b>					
Employee benefit obligation		(66 818 897)	-	1 294 532	(65 524 365)
		<b>52 934 905</b>	<b>18 972 856</b>	<b>2 429 828</b>	<b>74 337 589</b>

#### Statement of financial performance

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

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

2020

	Note	As previously reported	Correction of error	Re-classification	Restated
REVENUE FROM EXCHANGE TRANSACTIONS:		-	-	-	-
Services charges		357 906	-	(77 258)	280 648
Rental Income		351 888	(64 601)	(62 645)	224 642
Licence and permits		-	-	62 645	62 645
Other income		254 482	(30 842)	-	223 640
REVENUE FROM NON-EXCHANGE TRANSACTIONS:		-	-	-	-
Government grants & subsidies	1 045	547 178	858 874	-	1 046 406 052
Fines, Penalties and forfeits		-	-	77 258	77 258
EXPENDITURE:		-	-	-	-
Employee related cost:		(358 072 116)	(857 970)	(332 494)	(359 262 580)
Remuneration of councillors		(12 756 899)	(132 778)	102 000	(12 787 677)
Contracted services		(34 903 793)	2 517 942	(101 056 061)	(133 441 912)
Finance cost		(6 855 197)	(608 807)	-	(7 464 004)
Repairs and maintenance		(71 834 943)	-	71 834 943	-
Depreciation and amortisation		(200 612 019)	(1 507 438)	-	(202 119 457)
Impairment loss		(20 821 912)	288 906	-	(20 533 006)
Bulk purchase		(11 008 785)	(1 117 699)	-	(12 126 484)
General expenses:		-	-	-	-
- Accounting fees		(7 635 829)	-	7 635 829	-
- Accommodation		(2 766 948)	-	(318 117)	(3 085 065)
- Auditors remuneration		(6 705 124)	(1 439 108)	-	(8 144 232)
- Consulting and professional fees		(20 579 576)	-	20 579 576	-
- Consumables		(6 777 634)	-	391 101	(6 386 533)
- Catering		(908 352)	-	908 352	-
- Hire		(122 510)	-	40 410	(82 100)
- Printing and stationery		(9 988)	-	(549 051)	(559 039)
- Protecting clothing		(3 677 290)	-	553 379	(3 123 911)
- Subsistence and travelling		(3 096 934)	-	481 206	(2 615 728)
- Training		(1 784 948)	-	3 239	(1 781 709)
- Transport		(353 945)	-	(9 089)	(363 034)
- Sitting Allowance		-	-	(265 222)	(265 222)
- Electricity		(14 088 077)	1 043 320	-	(13 044 757)
- Telephone and Fax		(4 017 031)	157 958	-	(3 859 073)
Operating Surplus:		-	-	-	-
Transfers to local municipalities		(187 558 830)	(52 289)	-	(187 611 119)
Actuarial gains / (losses)		(5 411 784)	17 441	-	(5 394 343)
<b>Surplus for the year</b>		<b>64 150 990</b>	<b>(927 091)</b>	<b>1</b>	<b>63 223 900</b>

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

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

#### Errors

The following prior period errors adjustments occurred:

#### Current Assets

##### Inventories:

The correction of prior year amount was due to a finding that was raised in the prior year where retention fees for VIP toilets were incorrectly accounted on inventory.

##### VAT Receivable:

The restatement on VAT receivable prior year figure is due to mainly VAT amounts on Sedibeng invoices that were incorrectly capitalised as assets in the property, plant and equipment which had resulted in understatement of VAT receivable amount reported in the prior year.

A correction was made in the current year to reverse VAT amount incorrectly capitalised in property, plant and equipment.

##### Receivables from exchange transactions:

The correction of prior year amount is due to deposit that were incorrectly accounted for in the suspense account in the prior year.

##### Receivables from non-exchange transactions:

The correction of prior year amounts is due to transfers to local municipalities that were previously recorded as expenses in the prior year.

##### Cash and cash equivalents:

The correction of prior year amount is due to correction of reconciling items in the cashbook which related to petrol card expenses that were not cleared in the control account.

#### Non-Current Assets

##### Property, plant and equipment:]

The restatement of property, plant and equipment prior year figure was effected by the correction of retention, VAT incorrectly accounted for and repairs and maintenance that was incorrectly expensed instead of capitalised.

WIP Additions for 2020 changed with R16 242 671.01 which was incorrectly booked to Additions. It was corrected this year and is now allocated to WIP in the PPE note. The R16 242 671.01 relates to an amount relating to Boikhotso Pump station which was identified to be repair and maintenance and not capital.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

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

#### Current Liabilities

##### Payables from exchange transactions:

Trade payables -

The correction of prior period amount was due to supplier invoices that were not recorded in the prior year year.

Retention fees -

The correction of prior year amount was due to a finding that was raised where retention fees on VIP toilets were incorrectly accounted for on inventory.

Salary control account -

The correction of prior year amount was due to clearing of suspense account

Employee related accruals -

The correction of prior year amount relates to an accrual for covid-19 danger allowance that was not raised in the prior year.

Bonus accrual -

The correction of prior year bonus accrual amount relates to a bonus accrual that was raised for a senior manager who at the time did not have bonus in his remuneration package.

##### Unspent conditional grants and receipts -

The LG SETA grant was incorrectly recorded as conditional grant in the prior year which resulted in an unspent due to conditions not while the grant does not have conditions.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

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

#### Revenue and Expenditure

##### Rental Income -

The correction of prior year amount is as result of salary related accrual amounts that were incorrectly accounted for as rental income in the prior year.

##### Other income -

The correction of error is due to payroll deductions that were incorrectly accounted for as revenue in the prior year.

##### Government grants and subsidies -

The correction of prior year amount was due to grant that was incorrectly accounted for as unspent instead of being realised as revenue.

##### Depreciation & Impairment loss -

The restatement of depreciation figure from prior year is due to assets that were newly identified during physical verification and also assets that were incorrectly expensed to repairs and maintenance.

##### Employee related cost -

The correction of prior year amount as result of transactions incorrectly recorded in the salary control account.

##### Remuneration of councillors -

The correction of prior year amount as result of transactions incorrectly recorded in the salary control account.

##### Contracted services -

The correction of errors in contracted services was due to misclassifications of transactions as repairs and maintenance instead of assets.

Furthermore, correction also relates to incorrect transaction in consulting and professional fees, and catering expenses.

##### Finance Cost -

The correction of error was due to a finding raised in the prior year with regards to accounting for finance cost on long outstanding non paid suppliers in terms of GRAP 104.

##### Transfers and subsidies:

The correction of prior year amount is due to transfer and subsidy amounts relating to local municipality that were incorrectly expensed in the prior year.

##### General expenses:

###### Auditors remuneration -

The correction of prior year amount was due to invoices that were not recorded in the prior year.

###### Catering:

The restatement(increase) of prior year reported figure is due to votes that were incorrectly mapped in other accounts withing general expenses in the prior year.

###### Consulting and professional fees -

The restatement relate to reclassification of amounts relating to auditors that were incorrectly recorded under professional fees.

##### Transfer to local municipalities -

The correction of prior year amount was due to a finding that was raised in the prior year due to incorrect rate per VIP toilet used to calculate the value of transfer made to local municipalities.

##### Actuarial gain / (loss) -

The correction of prior year amount was as a result of recalculation of actuarial gain as per the report.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

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

#### Reclassifications

Certain comparative amounts have been reclassified due to incorrect classification made in prior year.

The following reclassifications adjustment occurred:

#### Current Assets and Liabilities

##### Receivables from exchange transactions:

The restatement (increase) relates to deposits that were incorrectly classified under receivables receivables from non-exchange in the prior year.

##### Employee benefit obligation:

An amount relating to current portion of the employee benefit obligation was incorrectly accounted for under non-current portion of employee benefit obligation in the prior year.

Total amount of R1 294 532 has been reclassified from non-current portion to current portion to correctly reflect the prior year current portion of the employee benefit obligation.

#### Revenue from exchange & non-exchange transactions

##### Service charges & Fines, Penalties and Forfeits:

The restatement of prior year figure is due to votes relating to Fines, penalties and forfeits that were incorrectly mapped/classified under revenue service charges.

Transactions in relation to Fines, Penalties and Forfeits amounting to R77 258 were incorrectly classified under Services Charges in the prior year year and a reclassification was done in the current year to correctly classify the votes into the correct category as required by mScoa.

The above reclassification has resulted in the restated comparative amount of Service Charges from R357 906 reported in prior year to comparative amount of R280 648 and a new category of income from Fines, Penalties and Forfeits

##### Rental income & Licence and permits:

The restatement of prior year figure is due to votes relating to Licence and Permits that were incorrectly classified under Rental Income in the prior year.

Transactions in relation to Licence and permits amounting to R62 644 were incorrectly classified under Rental income in the prior year year and a reclassification was done in the current year to correctly classify the votes into the correct category as required by mScoa

The above reclassification has resulted in the restated comparative amount of Rental Income from R351 888 reported in prior year to comparative amount of R289 243 and a new category of income Licence and permits presented separately in the statement of financial performance.

#### Expenditure

##### Employee related cost:

The restatement (increase) of prior year amount is due to accounts of basic salary that were incorrectly mapped under general expenses-protective clothing.

A reclassification was done in the current year to correctly account for all votes relating to employee cost basic salary.

##### Remuneration of councillors:

The restatement of prior year figure is due to votes relating to Sitting Allowances for audit committee members that was incorrectly classified under remuneration of councillors in the prior year.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

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

Transactions in relation to audit committee sitting allowance and claims amounting to R102 000 were incorrectly classified under remuneration of councillors in prior year and a reclassification was done in the correct year to correctly accounting for the transaction under General expenses category.

#### Contracted services:

The restatement of prior year figure is due to reclassification made to category of expenses that are contracted in nature which were previously classified under general expenses and as separate line items.

A reclassification was done in the current year to classify the following category of contracted service under contracted services as required by mScoa:

- Catering: previously classified under general expenses
- Accounting fees: previously classified under general expenses
- Consulting and professional fees: previously classified under general expenses
- Repairs and maintenance: previously classified and presented separately in the face of statement of financial performance

#### Catering:

The restatement(increase) of prior year reported figure is due to votes that were incorrectly mapped in other accounts withing general expenses in the prior year.

Consulting and professional fees -

The restatement relate to reclassification of amounts relating to auditors that were incorrectly recorded under professional fees.

#### General expenses:

Accommodation -

The restatement (increase) of prior year figure is due to accommodation transaction votes that were incorrectly mapped in subsistence and travel expenses.

#### Consumables -

The restatement(decrease) of prior year figure is due to printing and stationery votes that were incorreced mapped under consumables in the prior year.

The transactions relating to printing and stationery were removed from consumables and correctly mapped.

#### Hire -

The restatement (decrease) of prior year figure is due to catering related expenditure votes that were incorrectly mapped under hire expenses.

A reclassification was done in the current year and all votes not relating to hire expense were moved to their correct respective expense category.

#### Printing and stationery -

The restatement (increase) of prior year figure is due to votes relating to printing and stationery that were incorrectly mapped in consumables in prior year.

A reclassification was done in the current year to correctly reclassify the votes from consumables to printing and stationery.

#### Protective clothing -

The restatement (decrease) of prior year figure is due to votes relating to covid19 related expenditure that were incorrectly mapped and classified as protective clothing.

A reclassification was done in the current year to report covid19 related expenditure separately as required by mScoa and treasury.

#### Subsistence and travel -

The restatement (decrease) of prior year figure is due to votes relating to accommodation expenses and sitting allowance for audit committee members that were incorrectly mapped under subsistence and travel expenses category in the prior year.

A reclassification was done in the current year to correctly reclassify the votes from subsistence and travel to accommodation which resulted in reduction in prior year subsistence and travel audited figure.

#### Training -

The restatement (decrease) of prior year reported figure is due to a vote relating to transport expense that was incorrectly mapped in training expenses in the prior year.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

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

A reclassification was done in the current year and the vote for transport was correctly reclassified and mapped in transport expense.

#### Transport -

The restatement (increase) of prior year reported figure is due to votes which were incorrectly classified under hire expenses and training expenses in the prior year.

A reclassification was performed in the current year to correctly account for all votes relating to transport under transport expenses.

#### COVID-19 related expenses -

The Covid19 related expenditure was incorrectly mapped to protective clothing in the prior year and was not reported separately under general expenses as required by national treasury.

A reclassification was done in the current year and covid19 related expenses have been reported separately.

#### Sitting Allowance -

The restatement is due to votes for sitting allowances and claims relating to audit committee members were previously incorrectly mapped to accommodation expense, remuneration of councillors and subsistence and travel expense, furthermore the line item was not separately presented under general expenses.

A reclassification was done in the current year to classify all claims by audit committee members under line item sitting allowance.

### 46. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including, credit risk and liquidity risk).

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 that impact the municipality comprises mainly of three types of risk namely: current risk, interest rate risk and other price risk.

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk. The municipality's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The accounting officer provides written principles in the form of policies to manage for overall risk management

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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Figures in Rand	2021	2020
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### 46. Risk management (continued)

#### Liquidity risk

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

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 cashflows primarily obtained from government grants are utilised through the approved budget and monitored via monthly cashflow assessments

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant. Furthermore, balances that are due for more than 12 months as indicated on the face of the financial statements have been discounted as disclosed in the relevant notes to the financial statements and are.

Financial liabilities that are exposed to liquidity risk at period end were as follows:

These balances represent the maximum exposure to liquidity risk

Financial liabilities	30 June 2021	30 June 2020
Payables from exchange transactions	302 058 518	259 128 100
Employee benefit obligation	2 508 724	1 436 358
Unspent conditional grants and receipts	-	41 878 031
Provisions	1 800 887	4 412 545
	<b>306 368 129</b>	<b>306 855 034</b>

#### Credit risk

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 and failing to pay at the agreed time.

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.

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

Financial assets	2021	2020
Cash and Cash equivalents	580 912 146	461 593 495
Receivables from exchange transactions	15 837 066	17 072 116
Other financial assets	311 141	295 993

These balances represent the maximum exposure to credit risk.

#### Market risk

##### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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### 46. Risk management (continued)

#### Price risk

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

Potential concentrations of credit risk and interest rate risk consist mainly of notice deposit investments, receivables from exchange transactions, other financial assets, short-term investment deposit and bank and cash balances. The municipality limits its counterparty exposure from its money market investment operations by only dealing with well-established financial institutions of high credit standing.

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

### 47. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had a surplus of 30 June 2021 132 013 299 and that the municipality's total assets exceed its liabilities by 30 June 2021 5 491 289 595.F

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.

Management therefore believes that the going concern assumption under which the financial statements have been prepared is appropriate on the basis of the above financial performance and financial position.

### 48. Events after the reporting date

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

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

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

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

### 49. Unauthorised expenditure

Opening balance as previously reported	1 853 358 332	1 650 738 995
<b>Opening balance as restated</b>	<b>1 853 358 332</b>	<b>1 650 738 995</b>
Add: Expenditure identified - current	157 857 532	202 619 337
Less: Approved authorised by council - write-off	(447 561 717)	-
<b>Closing balance</b>	<b>1 563 654 147</b>	<b>1 853 358 332</b>

Management is unable to quantify the total amount of the opening balance for unauthorised expenditure due to the general ledger not agreeing to the annual financial statements for 2012/13 to 2016/17 financial year and not being able to obtain an adjusted budget for 2012/13 financial year.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>49. Unauthorised expenditure (continued)</b>		
<b>Unauthorised expenditure: per vote level</b>		
Vote 2 - Municipal Manager	-	2 389 684
Vote 3 - Finance, Economy & Enterprise Development	-	109 209 781
Vote 4 - Corporate Services	-	20 974 218
Vote 5 - Development and Town Planning Services	-	66 453 928
Vote 6 - Community Services	19 402 651	3 591 727
Vote 7 - Public Works & Basic Services	138 454 881	-
	<b>157 857 532</b>	<b>202 619 338</b>

### 50. Fruitless and wasteful expenditure

Opening balance as previously reported	22 062 230	20 556 562
<b>Opening balance as restated</b>	<b>22 062 230</b>	<b>20 556 562</b>
Add: Expenditure identified - current	27 219	1 505 668
Less: Amount written off - current	(4 396 407)	-
<b>Closing balance</b>	<b>17 693 042</b>	<b>22 062 230</b>

Fruitless and wasteful expenditure incurred in the prior financial year was due to interest on late payments for Eskom and penalties and interest from SARS and overpayments to staff.

Interest on overdue accounts in the current financial year relates to interest charged on Eskom and Local Municipalities accounts due to late payments made on these

Amount of R 4 396 406,73 relating to Financial year end 30 June 2017 was written off. Due to late payments attributable to system failure, inadequate budget and/or poor preventative controls.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021 2020

### 50. Fruitless and wasteful expenditure (continued)

Fruitless and wasteful identified in current year include those listed below:

#### Disciplinary steps taken/criminal proceedings

Interest on late payments	27 219	24 091
Penalties	-	452 419
Late filing of SARS returns	-	11 380
Overpayments to staff	-	132 778
Danger allowance	-	885 000
	<b>27 219</b>	<b>1 505 668</b>

There were no expenditure awaiting to be written as the investigation is still underway for the current year.

### 51. Irregular expenditure

Opening balance as previously reported	3 562 930 219	3 092 629 982
Correction of prior period error	1 042 582	(43 717 806)
<b>Opening balance as restated</b>	<b>3 563 972 801</b>	<b>3 048 912 176</b>
Less: Amounts written off by council - Irrecoverable	(134 295 466)	-
Add: Irregular Expenditure - Current (previous reported)	334 390 145	514 018 043
<b>Closing balance</b>	<b>3 764 067 480</b>	<b>3 562 930 219</b>

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 51. Irregular expenditure (continued)

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

	2021	2020
Bid adjudication committee composition incorrect	87 594 280	-
Shorter day advertisement period	3 456 373	-
Regulation 32 appointment non compliance	133 944 595	-
Irregular extension of Contracts	89 287	-
No Supply Chain Management processes's were followed	66 462 012	-
Disciplinary steps taken/criminal proceedings		
No consequence management followed	1 758 865	-
No consequence management followed	18 399 497	-
No consequence management followed	13 983 657	-
Declaration of interest not submitted	8 399 838	-
Municipal rates not submitted	301 743	-
Minimum threshold for local content production not specific		
Other non compliance with SCM Regulations		
Supplier not tax complaint		
	<b>334 390 147</b>	<b>-</b>

### Cases under investigation

There were no investigations conducted into the irregular expenditure during the 2020/21 financial year

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 51. Irregular expenditure (continued)

#### Incidents/cases identified in the 2019/20 financial year include those listed below

After the council committee investigations, council adopted the council committee recommendations to recover an amount of 30 June 2021 - from the municipal official as it was proven without reasonable doubt that the official was liable for the identified non-compliance to the SCM processes.

#### Disciplinary steps taken/criminal proceedings

Bid adjudication committee composition incorrect	Under investigation	107 070 345	-
Shorter day advertisement period	Under investigation	33 598 973	-
Regulation 32 appointment non compliance	Under investigation	137 365 779	-
Irregular extension of Contracts	Under investigation	40 908 356	-
No Supply Chain Management processes's were followed	Under investigation	13 727 542	-
Declaration of interest not submitted	Under investigation	1 516 410	-
Municipal rates not submitted	Under investigation	55 711 177	-
Deviations in contravention with Regulation 36	Under investigation	118 740 398	-
Other non compliance with SCM Regulations	Under investigation	5 379 063	-
		<b>514 018 043</b>	-

#### VAT on irregular expenditure

To ensure fais presentation othe 2020/21 financial year NMMDM has disclosed irregular expenditure exclusive of VAT. Additionally, NMMDM irregular expenditure has always been disclosed on the annual financial statements exclusive of VAT.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>52. Covid-19 Pandemic</b>		
<p>During the 2021/21 financial year, the country was again faced with a pandemic of a virus coded as covid-19. This pandemic is unprecedented and continue to cause a lot of uncertainty in the economic outlook of the country and the municipality. The covid-19 impact to the municipality is going to be dire over a period of time in terms of sustainability and delivery of services. This is said against the backdrop that the impact is not yet quantified however, for the year under review the following have been observed, capital expenditure was not affected as 100% of the approved budget was spent. This stretches beyond figures but to the behavior of consumers and the entire economic outlook of the municipality. The municipality incurred expenses of R3 342 901 in the 2020/2021 financial year related to covid-19 (personal protective equipment, sanitisation of offices, provision of water tankers etc). What is very important to take note of is that although there has been many challenges as a result of covid-19, the liquidity and going concern aspect of the municipality has remained intact</p>		
<b>53. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Current year subscription / fee	82 744	78 605
Amount paid - current year	(82 744)	(78 605)
	-	-
<b>Audit fees</b>		
Opening balance	119 052	46 417
Current year subscription / fee	7 871 332	6 705 124
Amount paid - current year	(6 728 450)	(6 632 489)
	<b>1 261 934</b>	<b>119 052</b>
<b>Pension and Medical Aid Deductions</b>		
Amount paid - current year	65 980 094	62 687 311
<b>VAT</b>		
VAT receivable	31 907 190	47 138 915
VAT payable	(381 090 667)	(267 579 395)
	<b>(349 183 477)</b>	<b>(220 440 480)</b>

VAT output payables and VAT input receivables are shown in note 11.

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

### Councillors' arrear consumer accounts

None of the councillors had arrear accounts outstanding for more than 90 days at 30 June 2021:

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 54. Deviation from supply chain management regulations

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

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

The following services were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. The deviations for the 2019/20 financial year are as follows;

#### 1. SAGE South Africa Pty Ltd

**R301 123**

Sole provider the Municipality had to pay Licence fee for payroll system.

#### 2. Ziggy Investments

**R43 700 000**

Emergency for drilling, testing and equipping of boreholes with electrical connection, excavation and installation of bulk pipeline to new and existing steel storage in Dinokana (Ward 11) under the Ramotshere Moiloa Local Municipality. Appointment date 25/08/2020.

#### 3. Aboos Fuel Distributor

**R6 720**

Aftercare services to fix the petrol pumps on emergency basis at Molopo and Lehurutse fire stations.

#### 4. Supreme Motors

**R12 039**

Issuing order to Supreme Ford for the brake repairs of speaker's vehicle, Supreme motors is the only local Ford agent

### 55. Segment information

#### General information

#### Identification of segments

The District municipality is organised and reports to management on the basis of five major functional areas: Public Works & Basic Services, Community Services, Development and Town Planning, Corporate Services and Finance, Economy & Enterprise Development. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. The only Segment identified is Public Works & Basic Services area where the rest of the functional areas were aggregated for reporting purposes.

Information reported about these segments is used by management as a basis for evaluating the segments' performances and for making decisions about the allocation of resources. The disclosure of information about these segments is also considered appropriate for external reporting purposes

#### Aggregated segments

The District municipality does not have geographical segments as it operates within its area of jurisdiction in the North West Province. Segments were aggregated on the basis of services delivered to its residents.

#### Types of goods and/or services by segment

These reportable segments as well as goods and/or services for each segment are set out below:

#### Reportable segment Goods and/or services

Only one segment was identified which is the Public Works and Basic Services. The rest of the functional areas are aggregated.

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 55. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2021

	Public Works and Basic Services	Other Departments	Total
<b>Revenue</b>			
Revenue from non-exchange transactions	314 688 000	922 234 857	1 236 922 857
Revenue from exchange transactions	-	24 578 250	24 578 250
<b>Total segment revenue</b>	<b>314 688 000</b>	<b>946 813 107</b>	<b>1 261 501 107</b>
<b>Entity's revenue</b>			<b>1 261 501 107</b>
<b>Expenditure</b>			
Finance	5 773 483	5 442 101	11 215 584
Depreciation	-	200 885 225	200 885 225
Other Expenses	335 384 040	527 419 635	862 803 675
<b>Total segment expenditure</b>	<b>341 157 523</b>	<b>733 746 961</b>	<b>1 074 904 484</b>
<b>Total segmental surplus/(deficit)</b>			<b>186 596 623</b>

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.

### 56. Budget differences

Material differences between budget and actual amounts

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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### 56. Budget differences (continued)

Explanation of variances between approved and final budget amounts, explanation of greater than 10% between final budget and actual amounts are provided below:

#### Statement of Financial Performance

Service charges (BD1) - The projected figure was lower than actual service charges due to the reclassification of fines from service charges amounting to R77 258

Other revenue (BD2) --The increase mainly due to more tenders that were advertised in the current year

Interest received (BD3) - The budget projection increase was based on the prior period's position of bank received interest earned whilst there was Drought Relief Budget

Government grant and subsidies (BD13) - The final budgeted amount of R921 Million relates to only operational grants while the actuals of R1.2 Billion reported on the budget consist of both operational grants and capital grants. The reason for the total variance of R1,2 Billion approved budget and the actuals of R1.236 Billion is mainly due to a lower budgeted amount on MIG grant which was based on historical trends

Remuneration of councillors (BD4) - Decreased due to scapping of sitting allowance as per upper limit

Depreciation and amortisation (BD5) - Reduced due to asset disposal completed for vehicle and generation

Contracted services (BD6)- Realigning according to mSCOA adjustment disclosure.

Finance cost (BD7)- Increase due to the interest on Defined Benefit Obligation and Long Service Award valued by Acturials and Eskom Interest.

General Expense (BD8)- re-classified general expenses as contracted services as mSCOA, namely Security Services, Catering, Water Tankering, Consultants & Professional Services, Business Advisory, Infrastructure Planning & Repair and Maintenance.

#### Statement of Financial Position

Inventories (BD9)- Additional inventory issued and consumed in the current year due to COVID19 Lockdown restrictions and aged infrastructure.

Cash and Cash Equivalents (BD10)-Increase is consistent of call accounts investment decision, VAT collection and cost containment measures.

Payables from exchange transactions (BD11)-increase is as a result of increase in transfers and subsidy payable.

Provision (BD12)-This is due increase in finance cost and leave payments

### 57. Accounting by principals and agents

The entity is a party to a principal-agent arrangement(s).

# Ngaka Modiri Molema District Municipality

(Registration number DC38)

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 57. Accounting by principals and agents (continued)

#### Details of the arrangement(s) is/are as follows:

The district municipality entered into a water services agreement/contract with the following local municipalities within the jurisdiction whereby the district, as the Water Service Authority and a principal to the arrangement, appointed the local municipalities, as Water Service Providers and agents to the arrangement, for the supply of retail water services in their respective areas in accordance with and subject to the provisions of chapter 8 of the Municipal Systems Act:

Mahikeng Local Municipality  
Ditsobotla Local Municipality  
Ramotshere Local Municipality  
Ratlou Local Municipality  
Tswaing Local Municipality

During the financial year, the following direct and indirect transactions took place between the district and the local municipalities:

#### Amounts included in Transfers and Subsidies:

Mahikeng Local Municipality	10 000 000	3 000 000
Ditsobotla Local Municipality	10 000 000	3 000 000
Ramotshere Local Municipality	25 000 000	3 000 000
Ratlou Local Municipality	10 000 000	3 000 000
Tswaing Local Municipality	10 000 000	3 000 000
	<b>65 000 000</b>	<b>15 000 000</b>

#### Amounts included in receivables from non-exchange:

