



Mogalakwena Local Municipality  
(Registration number LIM367)  
Annual Financial Statements  
for the year ended 30 June 2021

# Mogalakwena Local Municipality

(Registration number LIM367)

Annual Financial Statements for the year ended 30 June 2021

## General Information

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### Nature of business and principal activities

Local Government

### Councillors

### Councillors

Cllr Mokwele MF - Mayor  
Cllr Olifant P.L - Speaker  
Cllr Madiba MJ - Planning & Developmental Services Chairperson  
Cllr Langa L.D - Community Services Chairperson  
Cllr Monare M.B - Finance Chairperson  
Cllr Senoamadi M.M - Technical Services Chairperson  
Cllr R.G. Selemela - Corporate Support Services Chairperson  
Cllr Ms Tefu - Electrical Services Chairperson  
Cllr Mr Maepa - Traffic & Emergency Chairperson  
Cllr Satege L.K - Municipal Public Accounts Committee Chairperson  
Cllr Alberts S  
Cllr Monene R.N.  
Cllr Kekana M.R  
Cllr Mutshinya  
Cllr Rapatsa M.M  
Cllr Mahladiisa M.E  
Cllr Sebatjane M.P  
Cllr Tlhaku M.S  
Cllr Tsebe M.A  
Cllr Lelaka M.S  
Cllr Leso E.S  
Cllr Maluleke K.J  
Cllr Molefe K.J  
Cllr Molekoa L.P  
Cllr Monama T.E  
Cllr Puka L.E  
Cllr Seanego T.J  
Cllr Thobane M.S  
Cllr Tlhako V.K  
Cllr Tselana P.A  
Cllr Magongoa B.N  
Cllr Mashao M.L  
Cllr Senasha S.C.G  
Cllr Pooe T.P  
Cllr Maritz M.F  
Cllr Leshiba M.C  
Cllr Hlako N.R  
Cllr Moloto M.E  
Cllr Dekker K.Q  
Cllr Baloyi M.B  
Cllr Motileni M.S  
Cllr Sebatjane R.P  
Cllr Mooka T.L  
Cllr Majadibodu K.S  
Cllr Lentsoane M.C.  
Cllr Mampane M.J.  
Cllr Laka L.E

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## General Information

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	Cllr Sekhaolelo S.M Cllr Maloba L.P Cllr Seema M.E Cllr Letwaba M.S Cllr Ratema M.A Cllr Mogale M.T. Cllr Nkuna B.T. Cllr Legodi L.G Cllr Dibella S.A Cllr Kekana M.E. Cllr Langa M.J Cllr Mashala L.J. Cllr Coetzee Y.
<b>Grading of local authority</b>	Grade 5
<b>Accounting Officer</b>	Ms. Mampa N (Acting Municipal Manager 7 July 2020 to 31 January 2021) Ms. Gunqisa BS (Resigned 28 February 2021) Mr. Mashishi ML (Acting Municipal Manager 28 February 2021 to 31 March 2021) Mr. Ngoepe HSM (Acting Municipal Manager 1 April 2021)
<b>Chief Finance Officer (CFO)</b>	Mr. Mathibe BL - (Acting CFO 23 April 2021 to 30 June 2021) Mr. SM Mokgotho (Acting CFO 19 February 2021 to 22 April 2021) Ms. T Muelelwa (Acting CFO 1 July 2020 to 15 February 2021)
<b>Registered office</b>	54 Retief Street Mokopane Mokopane 0600
<b>Bankers</b>	Standard Bank
<b>Auditors</b>	AGSA (Limpopo Region) Registered Auditors

# Mogalakwena Local Municipality

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

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CIGFARO	Chartered Institute of Governance, Finance, Audit, and Risk Officers
COIDA	Compensation for Occupational Injuries and Diseases Act
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
mSCOA	Municipal Standard Chart of Accounts
PA Act	Public Audit Act
SALGA	South African Local Government Association
VAT	Value Added Tax

# Mogalakwena Local Municipality

(Registration number LIM367)

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

The annual financial statements set out on page 5, 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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**Mr HSM Ngoepe (Acting Municipal Manager)**  
**Accounting Officer**  
**31 August 2021**

# Mogalakwena Local Municipality

(Registration number LIM367)

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 municipality is engaged in local government and operates principally in South Africa.

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

### 2. Going concern

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

The ability of the municipality to continue as a going concern is dependent on continued grant funding from the national government..

### 3. Subsequent events

On 30 August 2021, the Hawks arrested a number of suspects on the municipal premises (civic centre) on allegations of corruption relating to transactions within the municipality. There were reports in the media that some of the suspects are politicians, municipal employees and service providers. The alleged amount relating to the corruption is R15million according to media reports, however the municipality was not formally given details of the allegations or a list of suspects by the Hawks. All information relating to the matter is through media reports and no other source of information was available to the municipality on the matter.

### 4. Accounting policies

As included in Note 1 of the annual financial statements, the municipality has consistently applied the accounting policies that are compliant to GRAP standards.

The annual financial statements prepared in accordance with the South African Statements of Generally Recognised Accounting Practice (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

### 5. Accounting Officer

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

Name	Nationality	Changes
Mr HSM Ngoepe (Acting Municipal Manager)	RSA	Appointed Thursday, 01 April 2021

### 6. Auditors

AGSA (Limpopo Region) will continue in office for the next financial period.

### 7. Non-compliance with applicable legislation

The reported Unauthorised, Irregular and Fruitless Expenditure which was incurred in contravention of the applicable regulations.

The municipality was deemed non-compliant with Municipal Budget and Reporting Regulations (MBRR) because its budget was not funded

The annual financial statements set out on page 5, 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:

# **Mogalakwena Local Municipality**

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Annual Financial Statements for the year ended 30 June 2021

## **Accounting Officer's Report**

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**Mr HSM Ngoepe (Acting Municipal Manager)**  
**Accounting Officer**  
**31 August 2021**

# Mogalakwena Local Municipality

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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>			
Current Assets			
Inventories	8	374 419 693	381 668 464
Operating lease asset	7	2 805 504	2 805 504
Receivables from exchange transactions	9&12	51 267 294	382 637 825
Receivables from non-exchange transactions	10&12	25 395 165	111 105 928
Cash and cash equivalents	13	73 025 345	35 912 598
		<b>526 913 001</b>	<b>914 130 319</b>
Non-Current Assets			
Investment property	3	73 934 000	73 934 000
Property, plant and equipment	4	5 346 069 059	5 164 920 361
Intangible assets	5	943 422	1 416 210
Heritage assets	6	5 867 835	5 867 835
Receivables from non-exchange transactions	10	15 080 345	10 571 839
		<b>5 441 894 661</b>	<b>5 256 710 245</b>
<b>Total Assets</b>		<b>5 968 807 662</b>	<b>6 170 840 564</b>
<b>Liabilities</b>			
Current Liabilities			
Operating lease liability	7	68 228	68 228
Payables from exchange transactions	16	342 411 481	368 336 280
VAT payable	17	88 638 230	82 277 742
Consumer deposits	18	24 409 306	23 976 869
Unspent conditional grants and receipts	14	65 071 103	77 251 356
Provisions	15	2 548 857	2 548 857
		<b>523 147 205</b>	<b>554 459 332</b>
Non-Current Liabilities			
Provisions	15	103 877 164	116 215 036
<b>Total Liabilities</b>		<b>627 024 369</b>	<b>670 674 368</b>
<b>Net Assets</b>		<b>5 341 783 293</b>	<b>5 500 166 196</b>
Reserves			
Non Distributable Reserves		208 299 616	(1 337 934)
Accumulated surplus		5 133 483 677	5 501 504 130
<b>Total Net Assets</b>		<b>5 341 783 293</b>	<b>5 500 166 196</b>

\* See Note 47



# Mogalakwena Local Municipality

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## Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Sale of goods		224 251	742 792
Service charges	20	374 647 839	398 424 752
Rendering of services		51 888	86 041
Rental of facilities and equipment	21	1 568 934	3 834 813
Licences and permits	23	10 684 735	8 333 821
(Losses)/Gains on sale of Land inventory		3 147 081	(360 044)
Other income	25	1 829 272	2 545 921
Interest received	26	59 444 207	51 224 342
Fair value adjustments	39	-	1 002 000
<b>Total revenue from exchange transactions</b>		<b>451 598 207</b>	<b>465 834 438</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	27	81 764 812	79 014 224
<b>Transfer revenue</b>			
Government grants & subsidies	28	702 416 854	697 450 274
Fines, Penalties and Forfeits	22	533 950	1 296 134
<b>Total revenue from non-exchange transactions</b>		<b>784 715 616</b>	<b>777 760 632</b>
<b>Total revenue</b>	19	<b>1 236 313 823</b>	<b>1 243 595 070</b>
<b>Expenditure</b>			
Employee related costs	29	(383 127 183)	(342 265 480)
Remuneration of councillors	30	(24 143 209)	(23 647 478)
Depreciation and amortisation	31	(135 085 993)	(129 196 581)
Finance costs	33	(9 715 776)	(41 658 878)
Lease rentals on operating lease	24	(359 126)	(1 016 009)
Debt Impairment	34	(599 519 134)	129 851 888
Repairs and Maintenance	38	(62 774 146)	(95 726 114)
Bulk purchases	35	(255 847 505)	(244 348 036)
Contracted services	36	(73 511 480)	(98 635 531)
General Expenses	37	(88 821 664)	(113 226 721)
<b>Total expenditure</b>		<b>(1 632 905 216)</b>	<b>(959 868 940)</b>
<b>(Deficit) surplus for the year</b>		<b>(396 591 393)</b>	<b>283 726 130</b>

\* See Note 47

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## Statement of Changes in Net Assets

	Other NDR	Capital replacement reserve	Total reserves	Accumulated surplus	Total net assets
Figures in Rand					
<b>Balance at 01 July 2019</b>	-	-	-	<b>5 029 425 005</b>	<b>5 029 425 005</b>
Changes in net assets					
Revaluation of road reserves	-	-	-	188 352 995	188 352 995
Net income (losses) recognised directly in net assets	-	-	-	188 352 995	188 352 995
Surplus for the year	-	-	-	283 726 130	283 726 130
Total recognised income and expenses for the year	-	-	-	472 079 125	472 079 125
PPE adjustments	(1 337 934)	-	(1 337 934)	-	(1 337 934)
Total changes	(1 337 934)	-	(1 337 934)	472 079 125	470 741 191
<b>Restated* Balance at 01 July 2020</b>	<b>(1 337 934)</b>	<b>-</b>	<b>(1 337 934)</b>	<b>5 501 504 130</b>	<b>5 500 166 196</b>
Changes in net assets					
Surplus for the year	-	-	-	(396 591 393)	(396 591 393)
Other movements in reserves	209 637 550	(73 629 621)	136 007 929	28 570 940	164 578 869
Total changes	209 637 550	(73 629 621)	136 007 929	(368 020 453)	(232 012 524)
<b>Balance at 30 June 2021</b>	<b>208 299 616</b>	<b>(73 629 621)</b>	<b>134 669 995</b>	<b>5 133 483 677</b>	<b>5 268 153 672</b>

Note(s)

\* See Note 47

# Mogalakwena Local Municipality

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## Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Service charges		553 783 593	160 662 573
Grants		702 416 854	769 867 018
Interest income		59 444 207	51 224 342
Property rates and other receipts		53 100 234	11 366 684
		<u>1 368 744 888</u>	<u>993 120 617</u>
<b>Payments</b>			
Employee costs		(407 270 392)	(365 912 958)
Suppliers		(914 757 797)	(489 151 048)
Finance costs		(9 715 776)	(41 658 878)
		<u>(1 331 743 965)</u>	<u>(896 722 884)</u>
<b>Net cash flows from operating activities</b>	42	<b><u>37 000 923</u></b>	<b><u>96 397 733</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	111 824	(87 845 055)
Purchase of heritage assets	6	-	(131 493)
		<u>111 824</u>	<u>(87 976 548)</u>
<b>Net cash flows from investing activities</b>		<b><u>111 824</u></b>	<b><u>(87 976 548)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>37 112 747</u></b>	<b><u>8 421 185</u></b>
Cash and cash equivalents at the beginning of the year		35 912 598	27 491 413
<b>Cash and cash equivalents at the end of the year</b>	13	<b><u>73 025 345</u></b>	<b><u>35 912 598</u></b>

\* See Note 47

# Mogalakwena Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Sales & rendering of services	1 669 844	(150 000)	<b>1 519 844</b>	224 251	<b>(1 295 593)</b>	N1
Service charges	429 414 444	(1)	<b>429 414 443</b>	374 647 839	<b>(54 766 604)</b>	
Agency services	9 088 903	-	<b>9 088 903</b>	51 888	<b>(9 037 015)</b>	N2
Rental of facilities and equipment	1 768 095	-	<b>1 768 095</b>	1 568 934	<b>(199 161)</b>	
Licences and permits	1 710 629	-	<b>1 710 629</b>	10 684 735	<b>8 974 106</b>	
Loss on sale of land inventory	-	-	-	3 147 081	<b>3 147 081</b>	
Operational revenue	-	-	-	1 829 272	<b>1 829 272</b>	
Interest received - outstanding debtors	51 529 812	(3 500 001)	<b>48 029 811</b>	59 444 207	<b>11 414 396</b>	N4
<b>Total revenue from exchange transactions</b>	<b>495 181 727</b>	<b>(3 650 002)</b>	<b>491 531 725</b>	<b>451 598 207</b>	<b>(39 933 518)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	82 366 781	(2)	<b>82 366 779</b>	81 764 812	<b>(601 967)</b>	
<b>Transfer revenue</b>						
Government grants & subsidies	766 566 830	55 447 937	<b>822 014 767</b>	702 416 854	<b>(119 597 913)</b>	N5
Gains on disposal of PPE (Sale of Stands)	14 356 277	(11 000 000)	<b>3 356 277</b>	-	<b>(3 356 277)</b>	N6
Fines, Penalties and Forfeits	3 492 974	-	<b>3 492 974</b>	533 950	<b>(2 959 024)</b>	N7
Other own revenue	2 185 453	150 000	<b>2 335 453</b>	-	<b>(2 335 453)</b>	
<b>Total revenue from non-exchange transactions</b>	<b>868 968 315</b>	<b>44 597 935</b>	<b>913 566 250</b>	<b>784 715 616</b>	<b>(128 850 634)</b>	
<b>Total revenue</b>	<b>1 364 150 042</b>	<b>40 947 933</b>	<b>1 405 097 975</b>	<b>1 236 313 823</b>	<b>(168 784 152)</b>	
<b>Expenditure</b>						
Employee related costs	(375 134 700)	3 367 727	<b>(371 766 973)</b>	(383 127 183)	<b>(11 360 210)</b>	
Remuneration of councillors	(26 781 674)	2 597 739	<b>(24 183 935)</b>	(24 143 209)	<b>40 726</b>	
Depreciation and amortisation	(91 343 300)	160	<b>(91 343 140)</b>	(135 085 993)	<b>(43 742 853)</b>	N8
Finance costs	(2 685 720)	2 000 000	<b>(685 720)</b>	(9 715 776)	<b>(9 030 056)</b>	N9
Lease rentals on operating lease	-	-	-	(359 126)	<b>(359 126)</b>	
Debt Impairment	(55 000 000)	-	<b>(55 000 000)</b>	(599 519 134)	<b>(544 519 134)</b>	N10
Bad debts written off	-	-	-	(62 774 146)	<b>(62 774 146)</b>	
Bulk purchases	(269 111 948)	16 238 175	<b>(252 873 773)</b>	(255 847 505)	<b>(2 973 732)</b>	
Contracted Services	(127 767 705)	(62 377 190)	<b>(190 144 895)</b>	(73 511 480)	<b>116 633 415</b>	N11
Transfers and Subsidies	(1 105 999)	(14 934)	<b>(1 120 933)</b>	-	<b>1 120 933</b>	N12
General Expenses	(82 412 537)	(12 499 506)	<b>(94 912 043)</b>	(88 821 664)	<b>6 090 379</b>	
<b>Total expenditure</b>	<b>(1 031 343 583)</b>	<b>(50 687 829)</b>	<b>(1 082 031 412)</b>	<b>(1 632 905 216)</b>	<b>(550 873 804)</b>	
<b>Deficit before taxation</b>	<b>332 806 459</b>	<b>(9 739 896)</b>	<b>323 066 563</b>	<b>(396 591 393)</b>	<b>(719 657 956)</b>	

# Mogalakwena Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>332 806 459</b>	<b>(9 739 896)</b>	<b>323 066 563</b>	<b>(396 591 393)</b>	<b>(719 657 956)</b>	
<b>Reconciliation</b>						

# Mogalakwena Local Municipality

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## 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 Position

#### Assets

##### Current Assets

Inventories	203 126 989	-	203 126 989	374 419 693	171 292 704	
Current portion of long term receivables	5 518 488	-	5 518 488	-	(5 518 488)	
Other Debtors	40 963 493	-	40 963 493	-	(40 963 493)	
Call Investment Deposits	25 124 908	(18 500 000)	6 624 908	-	(6 624 908)	
Long term receivables	382 129 914	(87 373 438)	294 756 476	-	(294 756 476)	
Operating lease asset	-	-	-	2 805 504	2 805 504	
Consumer debtors	-	-	-	14 033 269	14 033 269	
Receivables from non-exchange transactions	-	-	-	25 395 165	25 395 165	
Cash and cash equivalents	24 889 110	44 957 054	69 846 164	73 025 345	3 179 181	
	<b>681 752 902</b>	<b>(60 916 384)</b>	<b>620 836 518</b>	<b>489 678 976</b>	<b>(131 157 542)</b>	

##### Non-Current Assets

Investment property	270 328 577	-	270 328 577	73 934 000	(196 394 577)	
Property, plant and equipment	5 372 645 199	(70 784 876)	5 301 860 323	5 346 069 059	44 208 736	
Intangible assets	1 705 087	-	1 705 087	943 422	(761 665)	
Heritage assets	-	-	-	5 867 835	5 867 835	
Long term receivables	45 498 000	-	45 498 000	-	(45 498 000)	
	<b>5 690 176 863</b>	<b>(70 784 876)</b>	<b>5 619 391 987</b>	<b>5 426 814 316</b>	<b>(192 577 671)</b>	

#### Total Assets

	<b>6 371 929 765</b>	<b>(131 701 260)</b>	<b>6 240 228 505</b>	<b>5 916 493 292</b>	<b>(323 735 213)</b>	
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#### Liabilities

##### Current Liabilities

Operating lease liability	-	-	-	68 228	68 228	
Payables from exchange transactions	264 283 378	4 000 000	268 283 378	342 411 481	74 128 103	
VAT payable	-	-	-	88 638 230	88 638 230	
Consumer deposits	22 271 761	-	22 271 761	24 409 306	2 137 545	
Unspent conditional grants and receipts	-	-	-	65 071 103	65 071 103	
Provisions	4 593 882	-	4 593 882	2 548 857	(2 045 025)	
	<b>291 149 021</b>	<b>4 000 000</b>	<b>295 149 021</b>	<b>523 147 205</b>	<b>227 998 184</b>	

##### Non-Current Liabilities

Provisions	92 770 588	-	92 770 588	103 877 164	11 106 576	
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#### Total Liabilities

	<b>383 919 609</b>	<b>4 000 000</b>	<b>387 919 609</b>	<b>627 024 369</b>	<b>239 104 760</b>	
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#### Net Assets

	<b>5 988 010 156</b>	<b>(135 701 260)</b>	<b>5 852 308 896</b>	<b>5 289 468 923</b>	<b>(562 839 973)</b>	
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#### Net Assets

##### Net Assets Attributable to Owners of Controlling Entity

##### Reserves

Other NDR	-	-	-	208 299 616	208 299 616	
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# Mogalakwena Local Municipality

(Registration number LIM367)

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
Figures in Rand						
Capital replacement reserve	-	-	-	(73 629 621)	<b>(73 629 621)</b>	
Accumulated surplus	5 988 010 156	(135 701 260)	<b>5 852 308 896</b>	5 154 798 928	<b>(697 509 968)</b>	
<b>Total Net Assets</b>	<b>5 988 010 156</b>	<b>(135 701 260)</b>	<b>5 852 308 896</b>	<b>5 289 468 923</b>	<b>(562 839 973)</b>	

# Mogalakwena Local Municipality

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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
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Property rates	61 775 086	(4 118 339)	<b>57 656 747</b>	-	<b>(57 656 747)</b>	
Service charges	322 060 832	62 268 197	<b>384 329 029</b>	-	<b>(384 329 029)</b>	
Other revenue	25 704 124	(7 338 600)	<b>18 365 524</b>	-	<b>(18 365 524)</b>	
Transfers and Subsidies - Operational	482 723 130	18 886 000	<b>501 609 130</b>	-	<b>(501 609 130)</b>	
Transfers and subsidies - Capital	283 843 700	(37 906 000)	<b>245 937 700</b>	-	<b>(245 937 700)</b>	
Interest	40 784 227	(32 236 753)	<b>8 547 474</b>	-	<b>(8 547 474)</b>	
	<b>1 216 891 099</b>	<b>(445 495)</b>	<b>1 216 445 604</b>		<b>-(1 216 445 604)</b>	
<b>Payments</b>						
Suppliers and Employee costs	(881 208 563)	(72 591 941)	<b>(953 800 504)</b>	-	<b>953 800 504</b>	
Finance costs	(2 685 720)	2 000 000	<b>(685 720)</b>	-	<b>685 720</b>	
Transfers and grants	(1 106 000)	1 106 000	-	-	-	
	<b>(885 000 283)</b>	<b>(69 485 941)</b>	<b>(954 486 224)</b>		<b>- 954 486 224</b>	
<b>Net cash flows from operating activities</b>	<b>331 890 816</b>	<b>(69 931 436)</b>	<b>261 959 380</b>		<b>- (261 959 380)</b>	
<b>Cash flows from investing activities</b>						
Proceeds from sale of property, plant and equipment	-	14 356 277	<b>14 356 277</b>	-	<b>(14 356 277)</b>	
Capital assets	(314 364 798)	58 805 974	<b>(255 558 824)</b>	-	<b>255 558 824</b>	
Decrease (increase) in non-current receivables	-	45 498 000	<b>45 498 000</b>	-	<b>(45 498 000)</b>	
<b>Net cash flows from investing activities</b>	<b>(314 364 798)</b>	<b>118 660 251</b>	<b>(195 704 547)</b>		<b>- 195 704 547</b>	
Net increase/(decrease) in cash and cash equivalents	17 526 018	48 728 815	<b>66 254 833</b>	-	<b>(66 254 833)</b>	
Cash and cash equivalents at the beginning of the year	32 488 000	-	<b>32 488 000</b>	-	<b>(32 488 000)</b>	
Increase (decrease) in consumer deposits	-	(22 271 761)	<b>(22 271 761)</b>	-	<b>22 271 761</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>50 014 018</b>	<b>26 457 054</b>	<b>76 471 072</b>		<b>- (76 471 072)</b>	



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## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2021</b>											
<b>Financial Performance</b>											
Property rates	82 366 781	-	82 366 781	(2)		82 366 779	81 764 812		(601 967)	99 %	99 %
Service charges	429 414 444	-	429 414 444	-		429 414 444	404 063 745		(25 350 699)	94 %	94 %
Investment revenue	8 547 474	-	8 547 474	(3 500 000)		5 047 474	5 828 783		781 309	115 %	68 %
Transfers recognised - operational	482 723 130	86 545 000	569 268 130	(50 000)		569 218 130	571 533 972		2 315 842	100 %	118 %
Other own revenue	77 254 513	-	77 254 513	(11 000 000)		66 254 513	18 040 111		(48 214 402)	27 %	23 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1 080 306 342</b>	<b>86 545 000</b>	<b>1 166 851 342</b>	<b>(14 550 002)</b>		<b>1 152 301 340</b>	<b>1 081 231 423</b>		<b>(71 069 917)</b>	<b>94 %</b>	<b>100 %</b>
Employee costs	(375 134 700)	(4 000 000)	(379 134 700)	7 556 305	(188 578)	(371 766 973)	(318 872 779)	-	52 894 194	86 %	85 %
Remuneration of councillors	(26 781 674)	-	(26 781 674)	121 758	2 475 981	(24 183 935)	(23 572 031)	-	611 904	97 %	88 %
Debt impairment	(55 000 000)	-	(55 000 000)			(55 000 000)	(275 138 616)	-	(220 138 616)	500 %	500 %
Depreciation and asset impairment	-	-	-			-	(135 085 993)	-	(135 085 993)	DIV/0 %	DIV/0 %
Materials and bulk purchases	(281 258 576)	(1 792 865)	(283 051 441)	557 465	14 508 175	(267 985 801)	(249 125 967)	-	18 859 834	93 %	89 %
Other expenditure	(293 168 633)	(38 149 934)	(331 318 567)	(8 814 050)	(22 962 086)	(363 094 703)	(225 466 416)	-	137 628 287	62 %	77 %
<b>Total expenditure</b>	<b>(1 031 343 583)</b>	<b>(43 942 799)</b>	<b>(1 075 286 382)</b>	<b>(578 522)</b>	<b>(6 166 508)</b>	<b>(1 082 031 412)</b>	<b>(1 227 261 802)</b>	<b>-</b>	<b>(145 230 390)</b>	<b>113 %</b>	<b>119 %</b>
<b>Surplus/(Deficit)</b>	<b>48 962 759</b>	<b>42 602 201</b>	<b>91 564 960</b>	<b>(15 128 524)</b>		<b>70 269 928</b>	<b>(146 030 379)</b>		<b>(216 300 307)</b>	<b>(208)%</b>	<b>(298)%</b>

# Mogalakwena Local Municipality

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## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	283 843 700	(36 000 000)	247 843 700	4 952 937		252 796 637	308 120 798		55 324 161	122 %	109 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>332 806 459</b>	<b>6 602 201</b>	<b>339 408 660</b>	<b>(10 175 587)</b>		<b>323 066 565</b>	<b>162 090 419</b>		<b>(160 976 146)</b>	<b>50 %</b>	<b>49 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>332 806 459</b>	<b>6 602 201</b>	<b>339 408 660</b>	<b>(10 175 587)</b>		<b>323 066 565</b>	<b>162 090 419</b>		<b>(160 976 146)</b>	<b>50 %</b>	<b>49 %</b>

### Capital expenditure and funds sources

Total capital expenditure	326 343 700	(75 510 433)	250 833 267	4 725 557		255 558 824	(221 781 172)		(477 339 996)	(87)%	(68)%
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# Mogalakwena Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>Cash flows</b>											
Net cash from (used) operating	331 890 816	(22 933 779)	308 957 037	(46 997 658)		261 959 379	37 000 923		(224 958 456)	14 %	11 %
Net cash from (used) investing	(314 364 798)	63 531 531	(250 833 267)	55 128 720		(195 704 547)	111 824		195 816 371	- %	- %
Net cash from (used) financing	-	-	-	(22 271 761)		(22 271 761)	-		22 271 761	- %	DIV/0 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>17 526 018</b>	<b>40 597 752</b>	<b>58 123 770</b>	<b>(14 140 699)</b>		<b>43 983 071</b>	<b>37 112 747</b>		<b>(6 870 324)</b>	<b>84 %</b>	<b>212 %</b>
Cash and cash equivalents at the beginning of the year	32 488 000	-	32 488 000	-		32 488 000	35 912 598		3 424 598	111 %	111 %
<b>Cash and cash equivalents at year end</b>	<b>50 014 018</b>	<b>40 597 752</b>	<b>90 611 770</b>	<b>(14 140 699)</b>		<b>76 471 071</b>	<b>73 025 345</b>		<b>3 445 726</b>	<b>95 %</b>	<b>146 %</b>

# Mogalakwena Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
<b>2020</b>				
<b>Financial Performance</b>				
Property rates				79 014 224
Service charges				398 424 752
Investment revenue				51 224 342
Transfers recognised - operational				446 756 497
Other own revenue				17 481 478
<b>Total revenue (excluding capital transfers and contributions)</b>				<b>992 901 293</b>
Employee costs	-	-	-	(342 265 480)
Remuneration of councillors	-	-	-	(23 647 478)
Debt impairment	-	-	-	129 851 888
Depreciation and asset impairment	-	-	-	(129 196 581)
Finance charges	-	-	-	(41 658 878)
Materials and bulk purchases	-	-	-	(244 348 036)
Other expenditure	-	-	-	(308 604 375)
<b>Total expenditure</b>	-	-	-	<b>(959 868 940)</b>
<b>Surplus/(Deficit)</b>				<b>33 032 353</b>
Transfers recognised - capital				250 693 777
<b>Surplus (Deficit) after capital transfers and contributions</b>				<b>283 726 130</b>
<b>Surplus/(Deficit) for the year</b>				<b>283 726 130</b>
<b>Capital expenditure and funds sources</b>				
Total capital expenditure				87 329 754

# Mogalakwena Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Appropriation Statement

Figures in Rand

	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated audited outcome
<b>Cash flows</b>				
Net cash from (used) operating				96 397 733
Net cash from (used) investing				(87 976 548)
<b>Net increase/(decrease) in cash and cash equivalents</b>				<b>8 421 185</b>
<b>Cash and cash equivalents at year end</b>				<b>8 421 185</b>

# Mogalakwena Local Municipality

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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. All amounts have been rounded off to the nearest 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.

#### 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.

Assessing whether an omission or misstatement could influence decisions of users, and so be material, requires consideration of the characteristics of those users. The Framework for the Preparation and Presentation of Financial Statements states that users are assumed to have a reasonable knowledge of government, its activities, accounting and a willingness to study the information with reasonable diligence. Therefore, the assessment takes into account how users with such attributes could reasonably be expected to be influenced in making and evaluating decisions.

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

In the process of applying its accounting policies, and in preparing the annual financial statements, management is required to make various judgements, including estimates and assumptions, that may affect the determination of the reporting framework, affect amounts represented in the annual financial statements and as well as 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.

# Mogalakwena Local Municipality

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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)

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

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

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

#### Fair value estimation

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

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

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

#### Impairment testing

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

#### Provisions

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

#### 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.

# Mogalakwena Local Municipality

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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)

#### 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 .

#### Effective interest rate

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

### 1.5 Investment property

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

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

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

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

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

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

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

#### 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.

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

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



# Mogalakwena Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

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<b>Item</b>	<b>Depreciation method</b>	<b>Average useful life</b>
Buildings	Straight-line	5 - 60 years
Plant and machinery	Straight-line	2 - 15 years
Furniture and fixtures	Straight-line	5 - 15 years
Motor vehicles	Straight-line	7 - 15 years
Office equipment	Straight-line	5 - 10 years
IT equipment	Straight-line	5 - 10 years
Water	Straight-line	5 - 100 years
Community	Straight-line	5 - 60 years
Other property, plant and equipment	Straight-line	5 - 20 years
Electricity	Straight-line	10 - 60 years
Sanitation	Straight-line	10 - 60 years
Roads and paving	Straight-line	5 - 80 years

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# Mogalakwena Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

Railways	Straight-line	30 years
Park facilities	Straight-line	10 - 50 years
Specialised vehicles	Straight-line	10 - 15 years
Wastewater network	Straight-line	5 - 80 years

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

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

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

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

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

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

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

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

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.

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### 1.7 Intangible assets (continued)

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

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

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### 1.8 Heritage assets

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

An impairment loss of a cash-generating asset is the amount by which the carrying amount of an asset exceeds its recoverable amount.

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

#### Recognition

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

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### 1.8 Heritage assets (continued)

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

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

#### Impairment

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

#### Derecognition

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

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

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

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

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

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

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

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

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### 1.9 Financial instruments (continued)

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.

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 unutilised 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.

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### 1.9 Financial instruments (continued)

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

### Classification

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

### 1.10 Leases

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

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

#### Finance leases - lessor

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

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

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the 4,5%.

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

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

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### 1.10 Leases (continued)

#### Operating leases - lessor

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

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

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

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

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

#### Operating leases - lessee

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

### 1.11 Inventories

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

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

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

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

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

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

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

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

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

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

### 1.12 Impairment of cash-generating assets

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

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).

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

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

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

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

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

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

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

Useful life is either:

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

#### Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate commercial return, the municipality designates the asset as a non-cash-generating asset and applies the accounting policy on Impairment of Non-cash-generating assets, rather than this accounting policy.

#### Identification

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

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

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

#### Value in use

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

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



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

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

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

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

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

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

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

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

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

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

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

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

Useful life is either:

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

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

#### Designation

At initial recognition, the municipality designates an asset as non-cash-generating, or an asset or cash-generating unit as cash-generating. The designation is made on the basis of a municipality's objective of using the asset.

The municipality designates an asset or a cash-generating unit as cash-generating when:

- its objective is to use the asset or a cash-generating unit in a manner that generates a commercial return; such that
- the asset or cash-generating unit will generate positive cash flows, from continuing use and its ultimate disposal, that are expected to be significantly higher than the cost of the asset.

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

An asset used with the objective of generating a commercial return and service delivery, is designated either as a cash-generating asset or non-cash-generating asset based on whether the municipality expects to use that asset to generate a commercial return. When it is not clear whether the objective is to use the asset to generate a commercial return, the municipality designates the asset as a non-cash-generating asset and applies this accounting policy, rather than the accounting policy on Impairment of Non-cash-generating assets.

#### Identification

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

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

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

### 1.14 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.

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### 1.14 Employee benefits (continued)

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.

### 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.

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### 1.14 Employee benefits (continued)

#### Post-employment benefits

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

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

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.

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

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

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

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an entity 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 contribution in the cost of an asset.

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

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### 1.14 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.

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### 1.14 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 [OR is not] presented as the net of the amount recognised for a reimbursement.

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

# Mogalakwena Local Municipality

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### 1.14 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

### 1.15 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

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

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

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### 1.15 Provisions and contingencies (continued)

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 45.

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.

### 1.16 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.

### 1.17 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.



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### 1.17 Revenue from exchange transactions (continued)

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

#### Measurement

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

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

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

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

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

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

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

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

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

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### 1.18 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.

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

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

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.

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

#### Recognition

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

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

#### Measurement

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

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

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

#### Transfers

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

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

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

#### Fines

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

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

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

#### Gifts and donations, including goods in-kind

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

### 1.19 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 Comparative figures

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

### 1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

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

### 1.23 Fruitless and wasteful expenditure

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

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

# Mogalakwena Local Municipality

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### 1.24 Irregular expenditure

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

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

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

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and/or before finalisation of the financial statements must also be recorded appropriately in the irregular expenditure register. In

such an instance, no further action is also required with the exception of updating the note to the financial statements.

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

updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the

register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the

irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law.

Immediate

steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not

been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the

economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently

accounted for as revenue in the Statement of Financial Performance.

### 1.25 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

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## Accounting Policies

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### 1.26 Internal reserves

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

### 1.28 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.

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.

### 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).

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## Accounting Policies

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### 1.29 Events after reporting date (continued)

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 Value Added Tax

The Municipality accounts for value added tax on an accrual basis. However the VAT paid / due to / by SARS is accounted for on a cash basis.

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## Notes to the Annual Financial Statements

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### 2. New standards and interpretations

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

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

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

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

IGRAP 7	Limit on a Defined Benefit Asset Min Fund Requirement and Interact
IGRAP 21	The Effect of Past Decisions on Materiality.
GRAP 25	Employee Benefits
GRAP 104	Financial Instruments

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## Notes to the Annual Financial Statements

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### 3. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	73 934 000	-	73 934 000	73 934 000	-	73 934 000

#### Reconciliation of investment property - 2021

	Opening balance	Total
Investment property	73 934 000	73 934 000

#### Reconciliation of investment property - 2020

	Opening balance	Total
Investment property	73 934 000	73 934 000

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.

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,



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## Notes to the Annual Financial Statements

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### 3. Investment property (continued)

- 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.

#### Amounts recognised in surplus or deficit

Rental revenue from Investment property

1 568 934

1 799 473

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## Notes to the Annual Financial Statements

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### 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 and Buildings	676 625 110	(60 400 604)	616 224 506	499 461 840	(55 581 334)	443 880 506
Plant and machinery	30 086 783	(17 364 300)	12 722 483	30 056 953	(15 134 107)	14 922 846
Motor vehicles	51 560 882	(35 524 841)	16 036 041	51 560 881	(30 540 859)	21 020 022
Furniture and Office Equipment	8 712 513	(6 463 411)	2 249 102	8 698 516	(5 729 402)	2 969 114
IT equipment	10 295 402	(6 189 620)	4 105 782	10 227 406	(4 845 959)	5 381 447
Electrical Infrastructure	398 084 158	(169 535 855)	228 548 303	398 049 127	(160 474 208)	237 574 919
Community	214 385 848	(123 263 358)	91 122 490	214 385 849	(115 490 416)	98 895 433
Roads Infrastructure	969 377 550	(480 564 246)	488 813 304	952 314 458	(444 774 736)	507 539 722
Sanitation and solid waste infrastructure	249 494 291	(67 742 185)	181 752 106	186 535 661	(64 394 336)	122 141 325
Water network	3 312 131 916	(661 625 679)	2 650 506 237	3 220 646 355	(597 099 004)	2 623 547 351
Work in progress (WIP)	1 053 988 705	-	1 053 988 705	1 087 047 676	-	1 087 047 676
<b>Total</b>	<b>6 974 743 158</b>	<b>(1 628 674 099)</b>	<b>5 346 069 059</b>	<b>6 658 984 722</b>	<b>(1 494 064 361)</b>	<b>5 164 920 361</b>

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

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

	Opening balance	Additions	Additions through transfer of functions / mergers	Disposals	Transfers	Depreciation	Total
Land and Buildings	443 880 506	24 396 421	152 766 848	-	-	(4 819 269)	616 224 506
Plant and machinery	14 922 846	29 830	-	-	-	(2 230 193)	12 722 483
Motor vehicles	21 020 022	-	-	-	-	(4 983 981)	16 036 041
Office equipment	2 969 114	13 998	-	-	-	(734 010)	2 249 102
IT equipment	5 381 447	67 996	-	-	-	(1 343 661)	4 105 782
Electrical Infrastructure	237 574 919	35 030	-	-	-	(9 061 646)	228 548 303
Community	98 895 433	-	-	-	-	(7 772 943)	91 122 490
Roads Infrastructure	507 539 722	17 063 093	-	-	-	(35 789 511)	488 813 304
Wastewater network	122 141 325	63 303 649	-	(345 020)	-	(3 347 848)	181 752 106
Water network	2 623 547 351	98 572 521	-	(7 089 927)	-	(64 523 708)	2 650 506 237
WIP	1 087 047 676	169 821 719	-	-	(202 880 690)	-	1 053 988 705
	<b>5 164 920 361</b>	<b>373 304 257</b>	<b>152 766 848</b>	<b>(7 434 947)</b>	<b>(202 880 690)</b>	<b>(134 606 770)</b>	<b>5 346 069 059</b>

# Mogalakwena Local Municipality

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

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

	Opening balance	Additions	Depreciation	Total
Land and Buildings	445 397 459	2 499 177	(4 016 130)	443 880 506
Plant and machinery	16 856 677	277 998	(2 211 829)	14 922 846
Motor vehicles	25 338 649	594 574	(4 913 201)	21 020 022
Office equipment	3 555 662	132 842	(719 390)	2 969 114
IT equipment	5 770 706	894 899	(1 284 158)	5 381 447
Electrical Equipment	236 161 901	10 340 648	(8 927 630)	237 574 919
Community Assets	106 668 348	-	(7 772 915)	98 895 433
Roads Infrastructure	543 297 685	-	(35 757 963)	507 539 722
Wastewater network	110 607 261	14 782 609	(3 248 545)	122 141 325
Water network	2 564 702 291	118 721 387	(59 876 327)	2 623 547 351
Work in Progress (WIP)	816 597 377	270 450 299	-	1 087 047 676
	<b>4 874 954 016</b>	<b>418 694 433</b>	<b>(128 728 088)</b>	<b>5 164 920 361</b>

# Mogalakwena Local Municipality

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

#### Pledged as security

Carrying value of assets pledged as security is R Ni

The management of Mogalakwena Local Municipality realised, during their annual assessment of useful lives and residual values at the end of 30 June 2019, that the pattern of service potential derived from depreciable assets has changed from that in the previous years. These depreciable assets are currently depreciated using the straight line method over varying useful lives. As a result, management decided to change the remaining useful life of the depreciate assets by adding an additional 5 years to the assets.

The effect on the 2019 financial year and future periods will be decrease in the depreciation charge of

Plant and machinery	231 366	-
Motor vehicles	84 208	-
Furniture and office equipment	172 085	-
IT equipment	366 465	-

# Mogalakwena Local Municipality

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## Notes to the Annual Financial Statements

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

#### Projects taking longer to complete

#### Property, plant and equipment that was not used for any period of time during the reporting period that significantly impacted the delivery of goods and services of the entity (Carrying amount)

Mini water scheme 13: Buffelhoek, Diphichi, Grasvlei, Kgopeng, Mphelelo, Ramosesane< Tiberius< Galelia, Vergenoeg (Diphivhi Cluster), Multi Year	2 509 073	24 442 934
Mapela Sports Stadium	21 373 483	19 083 290
Mmahlongo Roads & Stormwater	322 151	14 204 053
Seema/Mapila: Mini Water Scheme Cluster 25	59 221 409	59 221 409
Mabuela Roads & Stormwater	17 063 093	15 199 860
Jakkalskull Section A	1 847 778	-
Jakkalskull B Water Distribution Makekeng	312 057	-
Jakkalskull Section B	1 775 594	-
	<b>104 424 638</b>	<b>132 151 546</b>

#### Halted Projects

	Carrying Value	Impairment	Total
Duren/Mote Christo Mini Scheme	178 800	(178 800)	-
Lesodi/ Skuilpad Roads and Storm water	329 761	(329 761)	-
Lusaka/Dikgokgopeng Roads & stormwater	217 800	(217 800)	-
Machikiri Roads & stormwater	231 068	(231 068)	-
Machikiri stormwater 09/10	49 881	-	49 881
Mini Water Scheme 23: Fothane/Mamaala/Parakisi	16 658 657	(16)	16 658 641
Monare stormwater	67 684	(67 684)	-
Moshate Stadium	46 647 930	(12 273 171)	34 374 759
Piet se Kop borrow Pit	232 707	(232 707)	-
Ramorulane Roads & stormwater	288 715	-	288 715
Rantlakana/Makekeng/Baster Roads & stormw	297 904	(297 904)	-
Rebone Sports Stadium	15 071 642	-	15 071 642
Sandsloot Mabusela/Masenya Roads & stormwater	269 756	(269 756)	-
Seema Maplelamini Water Shceme 25	10 408 401	-	10 408 401
'Mini Scheme 9: Mathekga, Moshuka, Segole	10 008 314	-	10 008 314
COVID-19 MokopaneE WWTW Plant	1 290 144	-	1 290 144
Sekuruwe Cluster Mini Scheme 27 (Multi Year)	15 097 110	-	15 097 110
Skrikfontein A&B Stormwater	236 323	(236 323)	-
Sodoma/Setupulane Roads & stormwater	282 313	(282 313)	-
	<b>117 864 910</b>	<b>(14 617 303)</b>	<b>103 247 607</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

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.

# Mogalakwena Local Municipality

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## Notes to the Annual Financial Statements

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### 5. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	5 158 641	(4 215 219)	943 422	5 158 640	(3 742 430)	1 416 210

#### Reconciliation of intangible assets - 2021

	Opening balance	Amortisation	Total
Computer software, other	1 416 210	(472 788)	943 422

#### Reconciliation of intangible assets - 2020

	Opening balance	Amortisation	Total
Computer software, other	1 888 997	(472 787)	1 416 210

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## Notes to the Annual Financial Statements

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### 6. Heritage assets

	2021			2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
National Parks	5 867 835	-	5 867 835	5 867 835	-	5 867 835

#### Reconciliation of heritage assets 2021

	Opening balance	Total
National Parks	5 867 835	5 867 835

#### Reconciliation of heritage assets 2020

	Opening balance	Additions	Total
National Parks	5 736 342	131 493	5 867 835

### 7. Operating lease asset

Current assets	2 805 504	2 805 504
Current liabilities	(68 228)	(68 228)
	<b>2 737 276</b>	<b>2 737 276</b>

#### 7.1 Leasing Arrangements.

The Municipality as Lessor

Operating leases relate to property owned by the municipality with lease terms of between 1 to 25 years, with an option to extend.



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## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>8. Inventories</b>		
Consumable stores	14 329 525	17 882 228
Water for distribution	176 148	126 236
Land inventory	359 914 020	363 660 000
	<b>374 419 693</b>	<b>381 668 464</b>
Carrying value of inventories carried at fair value less costs to sell	359 914 000	363 660 000
Inventories recognised as an expense during the year	9 939 033	11 585 515
<p>The land inventory was recognised at fair value less cost to sell due to the fact that the municipality could not determine the acquisition date and amounts as the land was registered in the name of the municipality before the year 2000 Inventories are held for own use and measured at the lower of cost and current replacement cost, No write downs of inventory to net realisable value were required.</p>		
<b>Inventory pledged as security</b>		
No inventory was pledged as security at the end of the financial year and in the previous financial year.		
<b>Water for distribution</b>		
Opening balance	126 236	157 019
Purchases	24 697 381	23 510 622
Issues	(24 647 469)	(23 541 405)
<b>Closing balance</b>	<b>176 148</b>	<b>126 236</b>
<b>9. Receivables from exchange transactions</b>		
Deposits	1 830 215	1 830 215
Housing debtors	453 901	392 672
Non current portion	15 080 345	10 571 839
Sundry debtors	11 749 153	9 439 673
Consumer debtors - Electricity	(61 658)	61 161 108
Consumer debtors - Water	26 557 420	214 894 264
Consumer debtors - Waste water	4 215 219	35 882 107
Consumer debtors - Refuse	5 597 658	45 437 083
Consumer debtors - Service Charges	925 386	13 600 703
	<b>66 347 639</b>	<b>393 209 664</b>
Non-current assets	15 080 345	10 571 839
Current assets	51 267 294	382 637 825
	<b>66 347 639</b>	<b>393 209 664</b>

The reassessment based on the payment rate has shown conditions that did not exist in the prior year. Based on the current assessment the movement in the prior year has been transferred to the debt impairment in the current financial year.

### Credit quality of trade and other receivables

The credit quality of trade and other receivables that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

# Mogalakwena Local Municipality

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

#### Trade and other receivables impaired

As of 30 June 2021, trade and other receivables of 872 767 388 - (2020: 390 392 883) were impaired and provided for.

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

Opening balance	390 392 883	466 952 590
Provision for impairment	482 374 505	(76 559 707)
	<b>872 767 388</b>	<b>390 392 883</b>

In determining the recoverability of receivables, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of receivables has been made for all consumer balances outstanding based on the payment ratio over 12 months per service type. No further credit provision is required in excess of the provision for impairment.

The municipality holds collateral over these balances in the form of consumer deposits and guarantees, which are not covering the total outstanding debt and vacant properties respectively.

Receivables from exchange transaction non current assets	2021	2020
Property Rates	2 922 023	1 668 984
Electricity	7 127 080	5 244 973
Refuse	577 139	462 420
Sewerage	557 297	362 217
Water	3 552 469	2 406 763
Service Charges	344 337	426 482
	<b>15 080 345</b>	<b>10 571 839</b>

### 10. Receivables from non-exchange transactions

Fines	1 763 258	1 268 158
Accrued Income	11 679 221	11 679 221
Overpayment - Contractors	2 574 156	316 295
Consumer Debtors - Property Rates	9 378 530	97 842 254
	<b>25 395 165</b>	<b>111 105 928</b>

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

No receivables from non exchange transaction were pledged as security at 30 June 2021 30 June 2020

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

Opening balance	100 223 627	153 462 015
Provision for impairment	117 128 302	(53 238 388)
	<b>217 351 929</b>	<b>100 223 627</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>11. VAT receivable</b>		
<b>12. Consumer debtors disclosure</b>		
<b>Gross balances</b>		
Consumer debtors - Rates	226 738 108	198 065 880
Consumer debtors - Electricity	124 785 027	101 705 464
Consumer debtors - Water	558 601 959	461 780 705
Consumer debtors - Waste water	88 546 028	77 280 103
Consumer debtors - Refuse	114 706 889	99 521 248
Consumer debtors - Service Charges	23 361 503	21 080 627
	<b>1 136 739 514</b>	<b>959 434 027</b>
<b>Less: Allowance for impairment</b>		
Consumer debtors - Rates	(217 359 578)	(100 223 626)
Consumer debtors - Electricity	(124 846 685)	(40 544 356)
Consumer debtors - Water	(532 044 542)	(246 886 441)
Consumer debtors - Waste water	(84 330 809)	(41 397 996)
Consumer debtors - Refuse	(109 109 232)	(54 084 166)
Consumer debtors - Service charges	(22 436 118)	(7 479 924)
	<b>(1 090 126 964)</b>	<b>(490 616 509)</b>
<b>Net balance</b>		
Consumer debtors - Rates	9 378 530	97 842 254
Consumer debtors - Electricity	(61 658)	61 161 108
Consumer debtors - Water	26 557 420	214 894 264
Consumer debtors - Waste water	4 215 219	35 882 107
Consumer debtors - Refuse	5 597 658	45 437 083
Consumer debtors - Service Charges	925 386	13 600 703
	<b>46 612 555</b>	<b>468 817 519</b>
<b>Rates</b>		
Current (0 -30 days)	507 227	6 173 044
31 - 60 days	179 397	2 256 282
61 - 90 days	165 482	2 062 752
Greater than 90 days	8 526 424	87 350 176
	<b>9 378 530</b>	<b>97 842 254</b>
<b>Electricity</b>		
Current (0 -30 days)	(15 831)	20 138 657
31 - 60 days	(3 270)	5 556 561
61 - 90 days	(2 478)	4 261 852
Greater than 90 days	(40 079)	31 204 038
	<b>(61 658)</b>	<b>61 161 108</b>
<b>Water</b>		
Current (0 -30 days)	1 408 997	13 909 240
31 - 60 days	525 126	6 033 405
61 - 90 days	509 115	5 005 134
Greater than 90 days	24 114 179	189 946 488
	<b>26 557 417</b>	<b>214 894 267</b>

# Mogalakwena Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand 2021 2020

### 12. Consumer debtors disclosure (continued)

#### Waste water

Current (0 -30 days)	184 898	1 568 619
31 - 60 days	76 362	635 353
61 - 90 days	61 312	596 355
91 - 120 days	3 892 647	33 081 780
	<b>4 215 219</b>	<b>35 882 107</b>

#### Refuse

Current (0 -30 days)	183 023	1 628 160
31 - 60 days	79 142	709 978
61 - 90 days	81 702	678 417
91 - 120 days	5 253 790	42 420 528
	<b>5 597 657</b>	<b>45 437 083</b>

#### Service charges

Current (0 -30 days)	48 285	294 831
31 - 60 days	9 878	70 014
61 - 90 days	8 657	84 844
91 - 120 days	858 565	13 151 015
	<b>925 385</b>	<b>13 600 704</b>

### 13. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	26 906	26 906
Bank balances	16 739 458	9 372 424
Short-term deposits	56 258 981	26 513 268
	<b>73 025 345</b>	<b>35 912 598</b>

The municipality had the following bank accounts

Cash and Cash Equivalents	30/06/2021	30/06/2020	30/06/2021	30/06/2020
	Bank Statement	Bank Statement	Cash Book	Cash Book
Standard Bank Primary	16 426 885	24 327 166	16 741 223	9 372 424
Standard Bank Call Account - 002	1 333 704	1 032 599	1 333 704	1 032 695
Standard Bank Call Account - 052	54 878 193	25 478 165	54 878 193	25 480 573
	<b>72 638 782</b>	<b>50 837 930</b>	<b>72 953 120</b>	<b>35 885 692</b>

### 14. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	57 313 025	51 833 582
Integrated National Electricity Programme (INEP)	3 074 196	6 808 937
Financial Management Grant	-	709 399
Expanded Public Works Programme (EPWP)	1 259 000	1 293 999
Water Services Infrastructure Grant (WSIG)	6 933 579	12 594 344
Housing Development Agency (HDA)	4 011 095	4 011 095
Regional Bulk Infrastructure Grant (RBIG)	(7 519 792)	-
	<b>65 071 103</b>	<b>77 251 356</b>

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## Notes to the Annual Financial Statements

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### 14. Unspent conditional grants and receipts (continued)

#### Movement during the year

Balance at the beginning of the year	-	4 834 612
Additions during the year	65 071 103	302 009 570
Income recognition during the year	-	(229 592 826)
	<b>65 071 103</b>	<b>77 251 356</b>

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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.

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## Notes to the Annual Financial Statements

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### 15. Provisions

#### Reconciliation of provisions - 2021

	Opening Balance	Additions	Total
Environmental rehabilitation	41 401 331	(9 085 239)	32 316 092
Provision - Long Service Award	13 703 367	(313 007)	13 390 360
Performance bonus	1 003 591	860 452	1 864 043
Post Retirement Medical Aid Provision	60 928 246	(11 470 340)	49 457 906
Other provisions - Insurance	300 000	-	300 000
	<b>117 336 535</b>	<b>(20 008 134)</b>	<b>97 328 401</b>

#### Reconciliation of provisions - 2020

	Opening Balance	Additions	Total
Landfill site rehabilitation	41 401 331	(9 085 239)	32 316 092
Long Service Awards	13 703 367	(313 007)	13 390 360
Performance Bonus Provision	1 003 591	860 452	1 864 043
Post retirement medical aid provision	60 928 246	(11 470 340)	49 457 906
Other provisions - Insurance	300 000	-	300 000
	<b>117 336 535</b>	<b>(20 008 134)</b>	<b>97 328 401</b>

Non-current liabilities	103 877 164	116 215 036
Current liabilities	2 548 857	2 548 857
	<b>106 426 021</b>	<b>118 763 893</b>

#### Landfill site rehabilitation provision

Provision for rehabilitation of landfill sites relates to the legal obligation to restore and rehabilitate the Mokopane and Rebone landfill sites used for waste disposal. The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision.

Risk describes variability of outcome. A risk adjustment may increase the amount at which a liability is measured. Caution is needed in making judgements under conditions of uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated, however, uncertainty, so that revenue or assets are not overstated and expenses or liabilities are not understated. However uncertainty does not justify the creation of excessive provisions or deliberate overstatement of liabilities. For example if the projected costs of a particularly adverse outcome are estimated on a prudent basis, that outcome is not then deliberately treated as more probable than is realistically the case. Care is needed to avoid duplicating adjustments for risk and uncertainty with consequent overstatement of provision.

#### Assumptions

The landfill Closure and Rehabilitation Costing Methodology (LCRCM) consists of five (5) components namely:

The element that make up the final rehabilitation and closure

Basic unit costs for each element

Variables that have an impact on one or more cost elements and result in a loading (positive or negative) on the basic unit cost

A set of algorithms that define the calculation of the amount of the various cost elements by describing the relationship between basic unit costs and the impact of the variables thereon

Discounting of the rehabilitation and closure costs

# Mogalakwena Local Municipality

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### 15. Provisions (continued)

GRAP 19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields ( at balance sheet date ) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term/life of the landfill site.

#### Long service award

Actuarial Method and assumptions

The valuation of the defined benefit obligation is performed at year end by an independent expert

Objective

Funding is the making of advance provision to meet the cost of accruing benefit promises. The funding objectives implicit in GRAP25/IAS19 are to maintain a provision 100% of the accrued service liability. The maintenance of such a provision gives employees a measure of security in respect of accrued benefit rights and also helps ensure that the employer does not maintain excessive resources within the provision made

Method

The method of funding prescribed by GRAP25 is called the " Project Unit Method". Under this method the accrued service liabilities are determined by projecting all future payments which will be made by the employer in respect of benefits accrued up to valuation date. Assumptions are made in respect of, inter-alia, medical scheme contribution increases, withdrawals, deaths and ill health, early and normal retirements. These payments are discounted at the valuation rate of discount to determine the present value of the liabilities at the valuation date.

The assumptions used in the calculation as discussed above are set out below:

Pace of Funding

It is important to note that the assumptions do not affect the actual cost of the benefit paid, only the pace at which those costs are provided for in the accounts of the Mogalakwena Municipality

An exercise of this nature should be completed every 2 to 3 years in order to monitor progress and ensure that the strategy adopted is still appropriate.

#### ANALYSIS OF THE ACTUARIAL (GAIN)/LOSS

The actuarial ((gain)/loss summarises the effects of the valuation assumptions compared to the actual experience of the participants.

#### Post Employment Medical Aid Provision

The employer's post employment health care liability consists of a commitment to pay a portion of the pensioner's post employment medical scheme contributions. The liability is also generated in respect of dependents who are offered continued membership of the medical scheme on the death of the primary member.

Eligible employees will receive a post-employment subsidy of 60% of the contribution payable should they be a member of a medical scheme at retirement

All continuation members and their eligible dependents receive a 60% subsidy.

Upon a member's death in retirement, the surviving dependents will continue to receive the same subsidy, however, upon a member's death in service the surviving dependents will not continue to receive the subsidy.

All subsidies are subject to a maximum of R..... for the year ending 30 June 2021. The maximum subsidy amount has been assumed to increase in the future at 75% of salary inflation.

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## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>16. Payables from exchange transactions</b>		
Trade payables	183 651 425	223 508 987
Payments received in advanced - contract in process	13 832 559	10 368 617
Control and clearing accounts	(10 849 877)	(9 960 099)
Deposits received	1 660 878	1 530 538
Retention creditors	83 980 167	86 866 338
Leave accrual	47 796 677	38 457 429
Bonus	8 640 266	7 904 176
Licenses and permits	13 480 416	9 441 324
Other Creditors	218 970	218 970
	<b>342 411 481</b>	<b>368 336 280</b>
<b>17. VAT payable</b>		
VAT Payable	88 638 230	82 277 742
<b>18. Consumer deposits</b>		
Electricity	19 825 998	19 395 641
Water	4 489 214	4 489 214
Housing rental	94 094	92 014
	<b>24 409 306</b>	<b>23 976 869</b>
<p>Consumer deposits are paid by consumers on application of the new water and electricity connections. The deposits are repaid when the water and electricity connections are terminated. In cases where consumers default on their accounts, the municipality reserves a right to utilise the deposit in settling the outstanding balances.</p>		
<b>19. Revenue</b>		
Sale of goods	224 251	742 792
Rendering of services	51 888	86 041
Service charges	374 647 839	398 424 752
Rental of facilities and equipment	1 568 934	3 834 813
Licences and permits	10 684 735	8 333 821
Miscellaneous other revenue	3 147 081	(360 044)
Other income	1 829 272	2 545 921
Interest received - investment	59 444 207	51 224 342
Property rates	81 764 812	79 014 224
Government grants & subsidies	702 416 854	697 450 274
Fines, Penalties and Forfeits	533 950	1 296 134
	<b>1 236 313 823</b>	<b>1 242 593 070</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Sale of goods	224 251	742 792
Service charges	374 647 839	398 424 752
Rendering of services	51 888	86 041
Rental of facilities and equipment	1 568 934	3 834 813
Licences and permits	10 684 735	8 333 821
(Losses)/Gains from land sale	3 147 081	(360 044)
Recoveries	1 829 272	2 545 921
Interest received - investment	59 444 207	51 224 342
	<b>451 598 207</b>	<b>464 832 438</b>



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## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>19. Revenue (continued)</b>		
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	81 764 812	79 014 224
<b>Transfer revenue</b>		
Government grants & subsidies	702 416 854	697 450 274
Fines, Penalties and Forfeits	533 950	1 296 134
	<b>784 715 616</b>	<b>777 760 632</b>
<b>20. Service charges</b>		
Sale of electricity	243 329 969	236 354 624
Sale of water	93 605 046	126 933 748
Sewerage and sanitation charges	36 848 628	34 591 134
Other service charges	864 196	545 246
	<b>374 647 839</b>	<b>398 424 752</b>
<b>21. Rental of facilities and equipment</b>		
<b>Premises</b>		
Premises	1 568 934	3 834 813
<b>22. Fines, Penalties and Forfeits</b>		
Law Enforcement Fines	533 950	1 296 134
<b>23. Licences and permits (exchange)</b>		
Road and Transport	10 684 735	8 333 821
<b>24. Lease rentals on operating lease</b>		
<b>Equipment</b>		
Contractual amounts	359 126	927 622
<b>Plant and equipment</b>		
Contractual amounts	-	88 387
	<b>359 126</b>	<b>1 016 009</b>
<b>25. Other Income</b>		
Miscellaneous receipts	1 829 272	2 545 921
<b>26. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	4 196 431	5 828 783
Interest charged on trade and other receivables	55 247 776	45 395 559
	<b>59 444 207</b>	<b>51 224 342</b>

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Figures in Rand	2021	2020
<b>27. Property rates</b>		
<b>Rates received</b>		
Residential	33 628 623	32 211 140
Commercial	38 171 099	37 175 801
State	9 649 168	9 328 366
Municipal	(486)	(3 639)
Public Service Organisations	316 408	302 556
	<b>81 764 812</b>	<b>79 014 224</b>

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Figures in Rand	2021	2020
<b>28. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	554 269 324	436 536 000
Grant - Waterberg District Municipality	15 564 648	8 742 896
Financial Management Grant (FMG)	1 700 000	1 060 601
Municipal Disaster Relief	-	417 000
	<b>571 533 972</b>	<b>446 756 497</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant (MIG)	96 106 975	104 583 418
Intergrated National Electrification Programme (INEP)	15 734 742	7 191 063
Regional Bulk Infrastructure Grant (RBIG)	44 477 849	49 368 674
Water Services Infrastructure Grant (WSIG)	36 916 421	57 405 656
Housing Development Agency (HDA)	(4 829)	823 519
Mining Comp Donation	(62 348 276)	31 321 447
	<b>130 882 882</b>	<b>250 693 777</b>
	<b>702 416 854</b>	<b>697 450 274</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Conditional grants received	702 416 854	697 450 274
Unconditional grants received	554 269 324	436 536 000
	<b>1 256 686 178</b>	<b>1 133 986 274</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
.		
<b>Municipal Infrastructure Grant (MIG)_</b>		
Balance unspent at beginning of year	51 833 582	-
Current-year receipts	153 420 000	156 417 000
Conditions met - transferred to revenue	(95 907 829)	(104 583 418)
Other	(52 032 728)	-
	<b>57 313 025</b>	<b>51 833 582</b>
Conditions still to be met - remain liabilities (see note 14).		
<b>Intergrated National Electrification Programme (INEP)</b>		
Balance unspent at beginning of year	6 808 937	-
Current-year receipts	12 000 000	14 000 000
Conditions met - transferred to revenue	(15 734 741)	(7 191 063)
	<b>3 074 196</b>	<b>6 808 937</b>
Conditions still to be met - remain liabilities (see note 14).		
Provide explanations of conditions still to be met and other relevant information.		

# Mogalakwena Local Municipality

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## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>28. Government grants and subsidies (continued)</b>		
<b>Financial Management Grant (FMG)</b>		
Balance unspent at beginning of year	709 399	-
Current-year receipts	1 700 000	1 770 000
Conditions met - transferred to revenue	(1 700 000)	(1 060 601)
Other	(709 399)	-
	<b>-</b>	<b>709 399</b>
Conditions still to be met - remain liabilities (see note 14).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Expanded Public Works Programme (EPWP)</b>		
Balance unspent at beginning of year	1 293 999	-
Current-year receipts	1 259 000	1 293 999
Other	(1 293 999)	-
	<b>1 259 000</b>	<b>1 293 999</b>
Conditions still to be met - remain liabilities (see note 14).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Regional Bulk Infrastructure Grant (RBIG)</b>		
Current-year receipts	36 958 057	49 368 674
Conditions met - transferred to revenue	(36 958 057)	(49 368 674)
	<b>-</b>	<b>-</b>
.		
<b>Water Services Infrastructure Grant (WSIG)</b>		
Balance unspent at beginning of year	12 594 344	-
Current-year receipts	43 850 000	70 000 000
Conditions met - transferred to revenue	(36 916 421)	(57 405 656)
Other	(12 594 344)	-
	<b>6 933 579</b>	<b>12 594 344</b>
<b>Housing Development Agency - HDA</b>		
Balance unspent at beginning of year	4 011 095	4 834 614
Conditions met - transferred to revenue	-	(823 519)
	<b>4 011 095</b>	<b>4 011 095</b>
Conditions still to be met - remain liabilities (see note 14).		
Provide explanations of conditions still to be met and other relevant information.		
<b>Waterberg District Grant</b>		

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## Notes to the Annual Financial Statements

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

Conditions still to be met - remain liabilities (see note 14).

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

#### Disaster Relief Grant

Current-year receipts	-	417 000
Conditions met - transferred to revenue	-	(417 000)
	-	-

Conditions still to be met - remain liabilities (see note 14).

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

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Figures in Rand	2021	2020
<b>29. Employee related costs</b>		
Basic	195 767 356	183 111 273
Bonus	821 167	860 453
Medical aid - company contributions	12 424 604	15 966 580
UIF	1 638 629	1 567 547
SDL	3 009 442	2 635 983
Leave pay	30 664 345	18 103 533
Defined contribution plans	40 635 039	37 544 768
Travel, motor car, accommodation, subsistence and other allowances	30 741 702	32 344 483
Overtime payments	39 881 335	28 225 655
Long-service awards	-	(1 350 931)
13th Cheques	17 037 494	15 784 379
Acting allowances	2 672 252	1 038 675
Housing benefits and allowances	331 542	1 477 295
Cellphone Allowance	7 207 710	4 839 670
Bargaining Council	294 566	116 117
	<b>383 127 183</b>	<b>342 265 480</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	930 921	1 102 206
Car Allowance	-	91 851
Performance Bonuses	86 130	196 891
Contributions to UIF, Medical and Pension Funds	190 955	263 850
Other benefits	420 179	-
	<b>1 628 185</b>	<b>1 654 798</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	168 819	766 485
Car Allowance	-	113 169
Performance Bonuses	8 350	332 727
Contributions to UIF, Medical and Pension Funds	1 810	151 173
Other	79 048	-
	<b>258 027</b>	<b>1 363 554</b>
<b>Manager - Community Services</b>		
Annual Remuneration	733 764	179 734
Car Allowance	-	211 879
Performance Bonuses	64 222	49 223
Contributions to UIF, Medical and Pension Funds	121 887	49 024
Other benefits	237 211	-
	<b>1 157 084</b>	<b>489 860</b>
<b>Manager - Corporate Services</b>		
Annual Remuneration	583 031	753 710
Car Allowance	-	212 225
Performance Bonuses	78 687	161 970
Contributions to UIF, Medical and Pension Funds	90 360	62 809
Other benefits	355 177	-
	<b>1 107 255</b>	<b>1 190 714</b>

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## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>29. Remuneration of councillors (continued)</b>		
<b>Manager - Traffic and Emergency Services</b>		
Annual Remuneration	536 848	853 710
Car Allowance	-	76 891
Performance Bonuses	80 234	142 285
Contributions to UIF, Medical and Pension Funds	76 024	182 599
Other	249 215	-
	<b>942 321</b>	<b>1 255 485</b>
<b>Manager Technical Services</b>		
Annual Remuneration	304 833	-
Performance Bonuses	12 384	-
Acting allowance	-	98 233
Contributions to UIF, Medical and Pension Funds	2 148	-
Other	159 749	-
	<b>479 114</b>	<b>98 223</b>
<b>Manager - Planning and Economic Development</b>		
Annual Remuneration	164 838	934 642
Performance Bonuses	-	77 887
Contributions to UIF, Medical and Pension Funds	-	199 363
Other	33 860	163 152
	<b>198 698</b>	<b>1 375 044</b>
<b>30. Remuneration of councillors</b>		
Executive Major	494 205	935 850
Mayoral Committee Members	4 163 224	4 931 103
Speaker	445 651	757 078
Councillors	19 040 129	17 023 447
	<b>24 143 209</b>	<b>23 647 478</b>
<b>31. Depreciation and amortisation</b>		
Property, plant and equipment	134 606 770	128 728 083
Intangible assets	479 223	468 498
	<b>135 085 993</b>	<b>129 196 581</b>
<b>32. Impairment of assets</b>		
<b>Impairments</b>		
Property, plant and equipment	-	14 617 303
<b>33. Finance costs</b>		
Service concession arrangements	9 715 776	41 658 878

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Figures in Rand	2021	2020
<b>34. Debt impairment</b>		
Contributions to debt impairment provision	599 519 134	(129 851 888)
<b>35. Bulk purchases</b>		
Electricity - Eskom	231 200 036	220 837 414
Water	24 647 469	23 510 622
	<b>255 847 505</b>	<b>244 348 036</b>
<b>Electricity losses</b>		
	<b>Number</b>	<b>Number</b>
	<b>2021</b>	<b>2020</b>
Units purchased	187 153 761	190 948 039
Units sold	(140 416 363)	(148 449 799)
<b>Total loss</b>	<b>46 737 398</b>	<b>42 498 240</b>
<b>Comprising of:</b>		
Non-technical losses	46 737 398	42 498 240
<b>Percentage Loss:</b>		
Non-technical losses	25 %	22 %
<b>Water losses</b>		
	<b>Number</b>	<b>Number</b>
	<b>2021</b>	<b>2020</b>
Units purchased	4 807 202	8 071 923
Units sold	(3 881 459)	(5 747 451)
<b>Total</b>	<b>925 743</b>	<b>2 324 472</b>
<b>Comprising of:</b>		
Non-technical losses	925 743	2 324 472
<b>Percentage Loss:</b>		
Non-technical losses	19 %	29 %
<b>36. Contracted services</b>		
<b>Outsourced Services</b>		
Gardening Services	28 450	53 122
Clearing and Grass Cutting Services	-	1 495
Fire Services	-	10 500
Medical Services [Medical Health Services & Support	23 196	586 434
Security Services	37 510 318	43 397 269
Transport Services	4 767 133	10 259 034
Electrical	350	108 622
<b>Consultants and Professional Services</b>		
Business and Advisory	30 390 289	42 875 827



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Figures in Rand	2021	2020
<b>36. Contracted services (continued)</b>		
<b>Contractors</b>		
Bore Waterhole Drilling	-	157 421
Medical Services	136 320	239 929
Tracing Agents and Debt Collectors	296 627	228 834
Traffic and Street Lights	358 797	522 044
Transportation	-	195 000
	<b>73 511 480</b>	<b>98 635 531</b>
<b>37. General expenses</b>		
Advertising	1 425 649	1 907 442
Auditors remuneration	8 739 044	7 751 490
Bank charges	1 381 690	2 156 086
Cleaning	114 356	140 500
Commission paid	20 163	3 426
Computer expenses	3 719 231	5 654 300
Consumables	9 937 191	11 585 515
Delivery expenses	136 975	519 850
Entertainment	3 524	53 946
Grass cutting and bush clearing	23 796 154	32 727 817
Insurance	4 006 440	5 375 692
Motor vehicle expenses	902 921	3 174 098
Medical examinations	-	95 484
Printing and stationery	1 278 295	1 624 441
Repairs and maintenance	1 146 608	1 146 608
Staff welfare	326 995	534 070
Subscriptions and membership fees	22 763	144 424
Telephone and fax	1 036 008	1 059 174
Subsistence and Travelling costs	8 126 754	8 796 047
Accommodation	132 205	783 018
Uniforms	427 592	5 581 149
Other expenses	12 467 339	8 225 919
Landfill site maintenance and provision	197 100	810 000
Indigent relief	5 973 445	5 684 492
SDL and Ward Committees	3 778 000	3 813 466
Consumables write offs	(274 778)	3 878 267
	<b>88 821 664</b>	<b>113 226 721</b>
<b>38. Repairs and maintenance</b>		
Maintenance of equipment	12 475 551	7 439 560
Maintenance of Buildings and Facilities	1 257 787	6 557 759
Engineering Civil	49 040 808	80 338 583
Engineering Aeronautical	-	1 390 211
	<b>62 774 146</b>	<b>95 726 113</b>
<b>39. Fair value adjustments</b>		
Other financial assets		
• Fair value adjustment - Investment property	-	1 002 000

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## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>40. Auditors' remuneration</b>		
Fees	8 739 044	7 751 490
<b>41. Operating (deficit) surplus</b>		
Operating (deficit) surplus for the year is stated after accounting for the following:		
<b>Operating lease charges</b>		
Equipment		
• Contractual amounts	359 126	927 622
Plant and equipment		
• Contractual amounts	-	88 387
	<b>359 126</b>	<b>1 016 009</b>
Amortisation on intangible assets	479 223	468 498
Depreciation on property, plant and equipment	134 606 770	128 728 083
Employee costs	407 270 392	365 912 958
<b>42. Cash generated from operations</b>		
(Deficit) surplus	(396 591 393)	283 726 130
<b>Adjustments for:</b>		
Depreciation and amortisation	135 085 993	129 196 581
Gain on sale of assets and liabilities	-	360 044
Fair value adjustments	-	(1 002 000)
Debt impairment	599 519 134	(129 851 888)
Bad debts written off	62 774 146	-
Movements in operating lease assets and accruals	-	(2 254 671)
Movements in provisions	(12 337 872)	1 427 358
Other non-cash items	(166 091 567)	(22 558 631)
<b>Changes in working capital:</b>		
Inventories	7 248 771	1 464 057
Receivables from exchange transactions	331 370 531	(232 043 070)
Consumer debtors	(599 519 134)	-
Other receivables from non-exchange transactions	106 854 441	(67 647 540)
Payables from exchange transactions	(25 924 799)	41 489 726
VAT	6 360 488	19 930 070
Unspent conditional grants and receipts	(12 180 253)	72 416 744
Consumer deposits	432 437	1 744 823
	<b>37 000 923</b>	<b>96 397 733</b>
<b>43. Financial instruments disclosure</b>		
<b>Categories of financial instruments</b>		
<b>2021</b>		
<b>Financial assets</b>		
	<b>At amortised cost</b>	<b>Total</b>
Trade and other receivables from exchange transactions	51 267 294	51 267 294
Other receivables from non-exchange transactions	40 475 510	40 475 510
Cash and cash equivalents	73 025 345	73 025 345
	<b>164 768 149</b>	<b>164 768 149</b>

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### 43. Financial instruments disclosure (continued)

#### Financial liabilities

	At amortised cost	Total
Payables from exchange transactions	342 411 481	342 411 481
VAT Payable	88 638 230	88 638 230
Consumer deposits	24 409 306	24 409 306
Unspent conditional grants and receipts	65 071 103	65 071 103
	<b>520 530 120</b>	<b>520 530 120</b>

#### 2020

#### Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	382 637 825	382 637 825
Other receivables from non-exchange transactions	121 677 767	121 677 767
Cash and cash equivalents	35 912 598	35 912 598
	<b>540 228 190</b>	<b>540 228 190</b>

#### Financial liabilities

	At amortised cost	Total
VAT payable	82 277 742	82 277 742
Trade and other payables from exchange transactions	368 336 280	368 336 280
Consumer deposits	23 976 869	23 976 869
Unspent conditional grants	77 251 357	77 251 357
	<b>551 842 248</b>	<b>551 842 248</b>

### 44. Commitments

#### Authorised capital expenditure

##### Already contracted for but not provided for

• Property, plant and equipment	700 391 642	1 041 960 946
---------------------------------	-------------	---------------

##### Total capital commitments

Already contracted for but not provided for	700 391 642	1 041 960 946
---	-------------	---------------

#### Authorised operational expenditure

##### Total commitments

##### Total commitments

Authorised capital expenditure	700 391 642	1 041 960 946
--------------------------------	-------------	---------------

This committed expenditure relates to plant and equipment and will be financed by retained surpluses, existing cash resources, funds internally generated, and conditional grants.

The municipality also has numerous contracts based on rates and commitment value cannot be reliably determined.

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### 45. Contingencies

#### LITIGATION CASES (ACTIVE)

Name of Plaintiff / Defendant	Amount of claim	Nature of claim	Status of outcome of the dispute
Malose Andries Makhafola	R 0.00	Non-compliance with constitutional responsibilities.	The matter is being defended and still pending.
Mmusho Security & Projects vs MLM	R 6 451 649,60	Breach of Contract.	The matter is being defended and still pending.
CSI AFRICA VS MLM	R 376 256.15	Claim for services rendered.	The matter is being defended and still pending.
High Risk Reaction Unit vs MLM	R 7 397 916.00	Claim for security services allegedly rendered	The matter is being defended and still pending.
The Voice Press vs MLM	R 633 000.00	Claim for services rendered: printing of t-shirts.	The matter is being defended and still pending.
S&M Montani vs MLM	R 9 150 000.00	claim for damages suffered as a result of municipal strike	The matter is being defended and still pending.
MOKGWATHI MASILO BETHUEL	R 2 824.210.00	Third Party Claim. The plaintiff alleges that he fell into a water drainage where the municipal employees or contractors were working but failed to close the manhole further failed to put warning signs to the public.	The matter is being defended and still pending.
Mogalakwena municipality	R 5 574 672,73	Fraudulent transactions in June 2015.	The matter is being defended and still pending.
Mogalakwena municipality	R 2 416 544.69	Fraudulent transactions in January 2019.	The matter is being defended and still pending.
KTS General & Mahlatsi Security Services	R 6 949 045,23	Breach of Contract.	The matter is being defended and still pending.
SM Tlhaku & 2 others	R 0.00	It's an application brought by three parties against the municipality, two of whom were removed as members of EXCO and one, as a full time Councillor, allegedly for sabotaging the functioning of the Council and EXCO, in failing to attend critical meetings and rendering Council dysfunctional.	The matter is being defended and still pending.
Mogalakwena municipality // Unlawful occupiers	R 0.00	Land Invasion.	The matter is being defended and still pending.

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### 45. Contingencies (continued)

Mogalakwena municipality // Unlawful occupiers		Land Invasion. Unknown individuals unlawfully entering and/or attempting to settle and /or trespassing on the immovable property known as Portion 80 of the farm Piet Potgietersrus Town & Townlands No. 44.	The matter is being defended and still pending.
PRISM ARCHITECTS(PTY)(LTD)	R 413 370.94	Claim for services rendered.	The matter is being defended and still pending.
ABECO TANKS	R 5, 210,028,00	Claim for services rendered.	The matter is being defended and still pending.
Lesibasiba Projects	R 16 758 522,42	Claim for services rendered.	The matter is being defended and still pending.
Tsentse Manufacturing	R 4, 014,418.34	Claim for services rendered.	The matter is being defended and still pending.
Pheehane Enterprises	R 800 00,00	Claim for services rendered.	The matter is being defended and still pending.
Bettie Mahlangu and one other	R 974 950,80	Claim for services rendered.	The matter is being defended and still pending.
Jack Lesetja Raphesu	R 762 466.54	Claim for services rendered.	The matter is being defended and still pending.
Mokerong Driving School	R 1 350 000.00	Claim for services rendered.	The matter is being defended and still pending.
GSM Mohlabi Inc	R 973 000,00	Claim for services rendered.	The matter is being defended and still pending.
Malose Andries Makhafola	R 2 900 000.00	Third Party Claim.	The matter is being defended and still pending.
VuthaMkhonto/Epholeleng Security	R 0.00	Interdict against the institution stopping the from terminating their security services	The matter is being defended and still pending.
Ngoako Seabela Inc	R 4.200 000.00	Claim for services rendered.	The matter is being defended and still pending.
Cum Laude Projects	R 430 000.00	Claim for services rendered.	The matter is being defended and still pending.
Yellow Stone Suppliers	R 595 000.00	Claim for services rendered.	The matter is being defended and still pending.
MEC:COGHSTA + 1	R 0.00	Compliance.	The matter is being defended and still pending.

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### 45. Contingencies (continued)

Tainama Civils	R 4 900 000M	Claim for services rendered.	The matter is being defended and still pending.
Mogalakwena Local Municipality // Councillor Salome Matlala	R 0.00	Claim for services rendered.	The matter is being defended and still pending.

Unverifiable claims - contingencies R 57 242 242.49

### 46. Related parties

#### Relationships

Councillors

Refer to note 32

Key management

Refer to note 31

#### Related party balances

#### Related parties

Waterberg Receivables- Firefighting subsidies	11 749 153	9 439 672
Department of Transport - amount due for overpayment	2 257 661	-

### 47. Prior period errors

Presented below are the financial statement elements in the statement of financial position, statement of financial performance and cash flow statement require adjustments in the prior year.

#### Inventory

These are the effects of addressing the issues on Land inventory for land that was determined not to be in the name of the municipality. Prior year amount R381 668 464. Prior year audited R 383 264 464

#### Property, plant and equipment

This is a combination of addressing the COMAFs raised in the FY 2020.2019.

#### Non-distributable reserves

The reserve is a culmination of the Road reserves adjustments.

#### Accumulated surplus

See comments above on Accumulated surplus.

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

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### 47. Prior period errors (continued)

Statement of financial position	Note	As previously reported	Correction of error	Re-classification	Restated
Inventories	8	383 264 464	1 596 000	-	381 668 464
Property, plant and equipment	4	4 956 740 958	(208 179 403)	-	5 164 920 361
Non distribution reserves	14	-	(1 337 934)	-	(1 337 934)
Accumulated surplus	15	5 293 582 792	(231 898 207)	-	5 525 480 999
Sub total	41	10 633 588 214	(439 819 544)	-	11 070 731 890
	<b>41</b>	<b>10 633 588 214</b>	<b>(439 819 544)</b>		<b>- 11 070 731 890</b>

### 48. Comparative figures

Certain comparative figures have been reclassified and restated. The impact on the reclassifications and restatements is documented on prior period error note.

### 49. Risk management

#### Financial risk management

#### Liquidity risk

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

#### Credit risk

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

Trade receivables comprise a widespread customer base. The municipality manages its credit risk through payment of deposits disconnection in the case of non-payment.

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

Financial instrument	2021	2020
Cash and Bank	73 025 345	35 912 598
Trade and other receivables	51 267 294	387 847 853
Receivables from non-exchange transactions	40 475 510	130 155 373

The municipality is exposed to a number of guarantees for the overdraft facilities of economic entities and for guarantees issued in favour of the creditors of A (Pty) Ltd. Refer to note for additional details.

### 50. Events after the reporting date

No adjusting events after balance sheet date.

### 51. Unauthorised expenditure

Opening balance	2 924 721 073	2 845 387 113
<b>Opening balance as restated</b>	<b>2 924 721 073</b>	<b>2 845 387 113</b>
Current year	617 523 411	79 333 960
<b>Closing balance</b>	<b>3 542 244 484</b>	<b>2 924 721 073</b>

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Figures in Rand	2021	2020
<b>51. Unauthorised expenditure (continued)</b>		
<b>The over expenditure incurred by municipal departments during the year is attributable to the following categories:</b>		
Employee related costs	12 560 069	12 255 912
Debt impairment	544 519 134	-
Depreciation and Asset impairment	43 766 894	63 388 783
Bulk Purchases	2 177	-
Other Materials	8 048	-
Contracted services	16 383 689	12 306 445
Other expenditure	283 401	19 761 319
	<b>617 523 412</b>	<b>107 712 459</b>

The municipality have established the misconduct board as required by National Treasury to investigate the UIF cases

The unauthorised expenditure are currently being investigated by the Misconduct Board and has not been finalised at year end

### 52. Fruitless and wasteful expenditure

Opening balance as previously reported	42 536 181	16 832 360
<b>Opening balance as restated</b>	<b>42 536 181</b>	<b>16 832 360</b>
Eskom	208 788	599 761
SARS	-	977 282
Ridgway	-	5 500 000
Telkom	15 799	6 965
CMC Tecrovoer Joint Venture	-	22 775 510
Employee related litigation	-	126 652
AGSA	192 760	229 012
Halted projects	-	14 667 168
Claims rejected	269 565	-
Mohlabi incorporated attorneys	94 813	-
Cooperativa Muratori and Cementisti	8 663 058	-
Tecoplan	13 392	-
Rexus Trading	711 620	-
Christian Adventure Africa	24 000	-
Avis car rental	335	-
Amount written off	-	(19 178 529)
<b>Closing balance</b>	<b>52 730 311</b>	<b>42 536 181</b>

The municipality have established the misconduct board as required by National Treasury to investigate the UIF cases

The fruitless and wasteful expenditure are currently being investigated by the Misconduct Board and has not been finalised at year end

### 53. Irregular expenditure

Opening balance as previously reported	2 295 544 946	2 360 394 134
<b>Opening balance as restated</b>	<b>2 295 544 946</b>	<b>2 360 394 134</b>
Add: Irregular Expenditure - current	164 020 179	341 624 644
Add: Irregular Expenditure - Identified by AGSA	-	3 929 782
Less: Amounts written off by Council	-	(410 403 614)
<b>Closing balance</b>	<b>2 459 565 125</b>	<b>2 295 544 946</b>



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### 53. Irregular expenditure (continued)

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

	Disciplinary steps taken/criminal proceedings	
Bid Committees not properly constituted	-	91 032 055
No evidence that bids were properly advertised	4 497 331	4 832 623
Non- Compliance with SCM Regulations (Evaluation criteria)	16 693 934	16 235 126
Non Compliance with SCM Policy	12 956 028	177 708 107
Incorrect application of regulation 32	-	11 949 463
Incorrect application of regulation 36	70 551 600	44 389 776
Invalid contracts	3 571 853	617 553
Expenditure with VAT	-	(1 506 755)
Quotations	-	296 480
Awards made without adjudication committee's recommendation	3 998 185	-
Incorrect composition	1 517 636	-
Other non Compliance	50 233 612	-
	<b>164 020 179</b>	<b>345 554 428</b>

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

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

Net (deficit) surplus per the statement of financial performance (396 591 393) 283 726 130

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

#### Contributions to organised local government- SALGA

Opening balance	1	-
Council Subscription	8 739 044	4 421 493
Amount paid - current year	(8 739 044)	(4 421 493)
Amount paid - previous years	(1)	-
	<u>-</u>	<u>-</u>

#### Material losses through criminal conduct

Current year subscription fee	-	2 565 346
Amount paid - current year	-	(2 565 346)
	<u>-</u>	<u>-</u>

#### Audit fees

Opening balance	1	-
Council Subscription	8 739 044	52 896 228
Amount paid - current year	(8 739 044)	(52 896 228)
Amount paid - previous years	(1)	-
	<u>-</u>	<u>-</u>

#### PAYE, SKILLS DEVELOPMENT AND UIF

Opening balance	(1)	-
Council Subscription/payroll subscription	58 338 592	52 896 228
Amount paid - current year	(53 457 442)	(52 896 228)
Amount paid - previous year	1	-
	<u>4 881 150</u>	<u>-</u>

#### Pension and Medical Aid Deductions

Opening balance	(1)	-
Current year payroll deduction and council contribution	72 729 959	70 181 580
Amount paid - current year	(72 729 959)	(70 181 580)
Amount paid - previous years	1	-
	<u>-</u>	<u>-</u>

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

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2021:

30 June 2021	Outstanding less than 90 days	Outstanding more than 90 days	Total
M.A. Tsebe	1 270	3 656	4 926
L.D. Langa	1 844	335	2 179
	<b>3 114</b>	<b>3 991</b>	<b>7 105</b>

30 June 2020	Outstanding less than 90 days	Outstanding more than 90 days	Total
RA Matsemela	10 205	3 501	13 706
MP Sebatjana	3 746	1 269	5 015
SCG Senosha	621	11 563	12 184
MM Rapatsa	1 267	241	1 508
ME Kekana	1 182	96	1 278
TM Kekana	529	175	704
LD Langa	1 199	-	1 199
MM Senoamadi	2 052	60	2 112
SM Sekhaolelo	370	123	493
PC Olifant	20	-	20
	<b>21 191</b>	<b>17 028</b>	<b>38 219</b>

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2021	Highest outstanding amount	Aging (in days)
LD Langa	199	90
SCG Senosha	3 075	90
MM Rapatsa	955	90
RA Matsemela	8 613	90
MA Tsebe	3 656	90
	<b>16 498</b>	<b>-</b>

30 June 2020	Highest outstanding amount	Aging (in days)
MP Sebatjana	2 762	90
SCG Senosha	37 480	90
MM Rapatsa	836	90
ML & MM Senoamadi	60	90
SM Sekhaolelo	287	90
ME Malatjie	287	90
RA Matsemela	4 333	90
PC Olifant	2 495	90
	<b>48 540</b>	<b>-</b>

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### 56. Deviation from supply chain management regulations

#### Supply Chain Management Regulations

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

Incident	2021	2020
Emergency	65,086,650.88	5,558,237.35
Impractical		38,831,538.46
Sole Provider		182,520.00
Total	65,086,650.88	44,572,295.81

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 municipality has procured goods and services to an amount of R 65 086 650.88 (2020 R44 572 295.81) 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.

### 57. Budget differences

#### Material differences between budget and actual amounts

##### N1. Sales and rendering of services

There is a negative variance of 85.23% on sales and rendering of services. The municipality was not able to perform on its regular rendering of services due to the National lockdown, hence the low actual amount.

##### N2. Service charges

There is a negative variance of 15.38% on services charges. The main factor contributing to the variance is sale of water. Due to ageing water infrastructure in villages and peri-urban areas, the municipality has to deliver water to communities through water carting services. The water that was delivered by the municipality was at no cost to the communities and it resulted in loss of revenue to the municipality.

##### N3. Agency services

There is a negative variance of 99.4% on agency services. Due to the lockdown levels, the municipality has been unable to operate at full capacity. The staff within the licensing section have been rotating and have been working five hours a day which meant that fewer people being assisted which affected the revenue that was generated from the service.

##### N4. Interest received – outstanding debtors

There is a positive variance of 23.76% on interest received on outstanding debtors. The positive variance is due to the more consumers defaulting on their accounts thus resulting in higher interest being levied against outstanding accounts.

##### N5. Government grants and subsidies

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### 57. Budget differences (continued)

There is a negative variance of 16.13% on government grants and subsidies. Due to poor spending in the previous financial year, the municipality had to return over R60million to the national revenue fund. The municipality further underspent in the 2020-21 financial year, meaning that less revenue from grants could be recognised.

#### N6. Gains on disposal of PPE (Sale of Stands)

There is a negative variance of 84.71% on gains on disposal of PPE. The municipality budgeted an amount to be generated from the sale of obsolete assets, mainly fleet, which would be auction. The municipality did not conduct an auction of obsolete assets during the financial year.

#### N7. Fines, penalties and forfeits

There is a negative variance of 84.71% on fines, penalties and forfeits. The municipality was unable to issue warrants for traffic fines as the TCS system used to capture fines was closed due to non-payment. As a result, there was a reduced payment of traffic fines by transgressors.

#### N8. Depreciation and amortisation

There is a negative variance of 47.37% on depreciation and amortisation. The municipality under-budgeted for depreciation and amortisation for the financial year.

#### N9. Finance costs

The negative variance on finance costs is due to under-budgeting. There is also interest that was charged to the municipality for late payment of invoices such as by the Auditor General.

#### N10. Debt impairment

The negative variance on debt impairment as a result of the assessed receivable accounts impairment exceeding the budget. There is a large number of consumer accounts that are outstanding for a long period which the municipality had to impair for the financial year.

#### N11. Contracted services

There is a negative variance of 61.38% on contracted services. The municipality reduced the outsourcing of services such as maintenance of water infrastructure during the financial year. Funds were re-prioritized to other critical services that were needed during the lockdown.

#### N12. Transfers and subsidies

There is a negative variance of 100% on transfers and subsidies. The municipality did not utilise the budgeted amount, mainly due to activities halted by the national lockdown..