



Sarah Baartman

DISTRICT MUNICIPALITY

Province of the Eastern Cape

progress through development

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the Year Ended 30 June 2022

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

General Information

Legal form of entity	District Municipality (DC10) Sarah Baartman District
Nature of business and principal activities	Municipal Services
Legislation governing the municipality's operations	Local Government Municipal Finance Management Act (No 56 of 2003) Remuneration of Public Office Bearers Act (No 20 of 1998) Local Government: Municipal Structures Act (No 117 of 1998) Constitution of the Republic of South Africa Act (No 108 of 1996) Division of Revenue Act (No 1 of 2007) Protection of Personal Information Act (No 4 of 2013) Remuneration of Public Office Bearers Act (No 20 of 1998)
Mayoral committee	
Executive Mayor	E Kekana - Term ended: 2021/11/09 M S Njadayi - Term ended 2021/12/01 D W S de Vos - Appointed: 2022/01/20
Speaker	M S Njadayi - Term ended: 2021/11/08 N S Gaga - Appointed: 2021/11/09
Portfolio Councillor: Finance	V Stuurman - Term ended: 2021/11/09 C Booyesen - Appointed: 2022/01/20
Portfolio Councillor: Corporate Services	P Faxi - Term ended: 2022/01/19 S Lucas - Appointed: 2022/01/20
Portfolio Councillor: Infrastructure Development and Community Services	N S Gaga - Term ended: 2021/11/09 P Faxi - Appointed: 2022/01/20
Portfolio Councillor: Planning & Economic Development	S Lucas - Term ended: 2022/01/19 Z Funiselo - Appointed: 2022/01/20
Portfolio Councillor: Special Projects	Z Funiselo - Term ended: 2022/01/19 Vacant - 2022/01/20
Accounting Officer	T M Pillay - Term ended: 2022/02/28 U Daniels - Appointed: 2022/06/01
Chief Finance Officer (CFO)	K Abrahams
Registered office	32 Govan Mbeki Ave Standard Bank Building Port Elizabeth 6001
Postal address	P O Box 318 Port Elizabeth 6000

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

General Information

Bankers	ABSA Bank Limited
Auditors	Auditor General of South Africa
Attorneys	Ms. F Antony - Senior Manager: Legal Services
Preparer	The group annual financial statements were internally compiled by: K Abrahams

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Index

The reports and statements set out below comprise the group annual financial statements presented to the Municipal Council:

	Page
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Actual and Budget Amounts	9 - 10
Accounting Policies	11 - 25
Notes to the Group Annual Financial Statements	26 - 68

Appendixes:

Appendix A: Analysis of Property, Plant and Equipment

Appendix B: Segmental analysis of Property, Plant and Equipment

Abbreviations used:

CDDA	Cacadu District Development Agency
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)
IMFO	Institute of Municipal Finance Officers
MDRG	Municipal Disaster Relief Grant
SARS	South African Revenue Services
DORA	Divison of Revenue Act
RRAMS	Rural Roads Access Municipal Systems
SBDM	Sarah Baartman District Municipality
VAT	Value Added Tax

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Officer's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the group annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the group 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 group annual financial statements and was given unrestricted access to all financial records and related data.

The group 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 group 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 she 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 group 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 2023 and, in the light of this review and the current financial position, she 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 grant funding for continued funding of operations. The group annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

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

The group annual financial statements set out on pages 5 to 66, which have been prepared on the going concern basis, were approved by the Accounting Officer on 13 December 2022.



U Daniels
Accounting Officer

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Receivables from exchange transactions	3	3 666 617	1 134 441
Receivables from non-exchange transactions	4	1 574 644	1 819 822
VAT receivable	5	3 042 279	1 360 581
Short-term investments	7	141 000 000	100 000 000
Cash and cash equivalents	8	87 988 489	135 658 831
		237 272 029	239 973 675
Non-Current Assets			
Deposits paid	6	15 410	15 410
Investment property	9	10 964 934	12 006 818
Property, plant and equipment	10	18 999 943	19 980 446
Intangible assets	11	1 291 923	860 069
Heritage assets	12	15 676 000	15 676 000
Long-term receivables	13	126 199	138 191
		47 074 409	48 676 934
Total Assets		284 346 438	288 650 609
Liabilities			
Current Liabilities			
Payables from exchange transactions	14	14 237 224	14 701 194
Unspent conditional grants and receipts	15	-	11 798 334
Employee benefit obligation	16	4 773 175	4 594 263
		19 010 399	31 093 791
Non-Current Liabilities			
Employee benefit obligation	16	56 766 894	58 605 589
Total Liabilities		75 777 293	89 699 380
Net Assets		208 569 145	198 951 229
Accumulated surplus	17	208 584 360	198 964 937
Total Net Assets		208 584 360	198 964 937

* See Note 30

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
Revenue			
Revenue from exchange transactions			
Rental of facilities and equipment		60 264	60 563
Commission received		54 161	46 390
Interest earned	19	11 465 632	10 703 010
Decrease in provision for doubtful debts	3&4	-	442 636
Job evaluation fees		1 144 039	-
Total revenue from exchange transactions		12 724 096	11 252 599
Revenue from non-exchange transactions			
Actuarial gain on post employment medical benefit	16	3 880 692	-
Government grants & subsidies	18	123 279 027	123 583 591
Other revenue	20	564 178	395 356
Total revenue from non-exchange transactions		127 723 897	123 978 947
Total revenue		140 447 993	135 231 546
Expenditure			
Depreciation	9&10	(2 049 611)	(1 771 605)
Amortisation	11	(248 062)	(487 477)
Actuarial loss on post employment medical benefit	16	-	(2 636 368)
Interest costs on post employment medical benefit	16	(5 931 925)	(6 056 344)
Remuneration of employees	21	(55 237 885)	(47 375 660)
Remuneration of councillors	22	(6 960 244)	(7 367 077)
Repairs and maintenance	23	(906 899)	(792 844)
Grants and subsidies paid	24	(17 351 370)	(16 899 780)
General expenses	25	(38 502 905)	(48 387 308)
Contracted services	26	(2 458 911)	(2 750 933)
Impairment of assets	27	(973 198)	(4 207)
Increase in provision for doubtful debts	3	(15 218)	-
Loss on disposal of assets and liabilities	28	(7 596)	(7 556)
Fines and penalties		-	(40)
Total expenditure		(130 643 824)	(134 537 199)
Surplus for the year		9 804 168	694 347

* See Note 30

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	197 519 051	197 519 051
Adjustments		
Correction of errors - SBDM	(35 248)	(35 248)
Prior year adjustments - CDDA	602 044	602 044
Balance at 01 July 2020 restated	198 085 847	198 085 847
Changes in net assets		
Deficit for the year as restated	694 347	694 347
Balance at 01 July 2021 restated	198 780 195	198 780 195
Changes in net assets		
Surplus for the year	9 804 168	9 804 168
Balance at 30 June 2022	208 584 363	208 584 363

Note 30

* See Note 30

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Grants	19	111 904 001	105 999 168
Interest income		10 167 181	10 340 067
Other receipts		799 509	313 386
		<u>122 870 691</u>	<u>116 652 621</u>
Payments			
Employee costs		(62 479 401)	(54 785 437)
Cash paid to suppliers		(34 904 818)	(41 750 703)
Other payments		(26 041 653)	(26 967 984)
		<u>(123 425 872)</u>	<u>(123 504 124)</u>
Net cash flows from operating activities	29	<u>(555 181)</u>	<u>(6 851 503)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(1 008 015)	(1 499 127)
Purchase of other intangible assets	11	(679 916)	(722 212)
Net cash flows from investing activities		<u>(1 687 931)</u>	<u>(2 221 339)</u>
Cash flows from financing activities			
Payments of short-term investments		(41 000 000)	87 000 000
Repayment of employment benefit liabilities	16	(4 427 228)	(4 529 188)
Net cash flows from financing activities		<u>(45 427 228)</u>	<u>82 470 812</u>
Net increase/(decrease) in cash and cash equivalents		<u>(47 670 340)</u>	<u>73 397 970</u>
Cash and cash equivalents at the beginning of the year		135 658 831	62 260 862
Cash and cash equivalents at the end of the year	8	<u>87 988 491</u>	<u>135 658 832</u>

* See Note 30

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

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
2022											
Financial Performance											
Investment revenue	9 130 833	(74 833)	9 056 000	-	-	9 056 000	11 465 632		2 409 632	127 %	126 %
Transfers recognised - operational	106 773 000	4 376 000	111 149 000	-	-	111 149 000	112 949 072		1 800 072	102 %	106 %
Other own revenue	32 433 000	13 292 000	45 725 000	-	-	45 725 000	5 703 334		(40 021 666)	12 %	18 %
Total revenue (excluding capital transfers and contributions)	148 336 833	17 593 167	165 930 000	-	-	165 930 000	130 118 038		(35 811 962)	78 %	88 %
Employee costs	(64 533 750)	1 507 002	(63 026 748)	-	-	(63 026 748)	(55 167 228)		7 859 520	88 %	85 %
Remuneration of councillors	(8 454 535)	(54 738)	(8 509 273)	-	-	(8 509 273)	(6 960 244)		1 549 029	82 %	82 %
Depreciation and asset impairment	(2 455 000)	-	(2 455 000)			(2 455 000)	(3 270 871)		(815 871)	133 %	133 %
Transfers and grants	(23 569 000)	(12 518 000)	(36 087 000)	-	-	(36 087 000)	(22 551 370)		13 535 630	62 %	96 %
Other expenditure	(67 895 736)	(11 175 687)	(79 071 423)	-	-	(79 071 423)	(42 623 457)		36 447 966	54 %	63 %
Total expenditure	(166 908 021)	(22 241 423)	(189 149 444)	-	-	(189 149 444)	(130 573 170)		58 576 274	69 %	78 %
Surplus/(Deficit)	(18 571 188)	(4 648 256)	(23 219 444)	-	-	(23 219 444)	(455 132)		22 764 312	- %	- %
Utilisation of conditional grant - CDDA	-	-	-	-	-	-	10 145 207		10 145 207	DIV/0 %	DIV/0 %
Employee cost - CDDA	-	-	-	-	-	-	(70 657)		(70 657)	DIV/0 %	DIV/0 %
Surplus (Deficit) after capital transfers and contributions	(18 571 188)	(4 648 256)	(23 219 444)	-	-	(23 219 444)	9 619 418		32 838 862	(41)%	(52)%
Surplus/(Deficit) for the year	(18 571 188)	(4 648 256)	(23 219 444)	-	-	(23 219 444)	9 619 418		32 838 862	- %	- %

CS

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget (i.t.o. s31 of the MFMA)	Shifting of funds (i.t.o. MFMA)	Virement (i.t.o. council approved policy)	Final budget outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Capital expenditure and funds sources										
Total capital expenditure	19 724 000	4 078 000	23 802 000	-	-	23 802 000	1 774 000	(22 028 000)	7 %	9 %
Sources of capital funds										
Internally generated funds	(19 724 000)	(4 078 000)	(23 802 000)	-	-	(23 802 000)	(1 774 000)	22 028 000	7 %	9 %
Cash flows										
Net cash from (used) operating	(6 021 188)	(4 078 000)	(10 099 188)	-	-	(10 099 188)	(555 183)	9 544 005	5 %	9 %
Net cash from (used) investing	(19 854 000)	(90 000)	(19 944 000)	-	-	(19 944 000)	(1 687 933)	18 256 067	8 %	9 %
Net cash from (used) financing	-	-	-	-	-	-	(45 427 226)	(45 427 226)	- %	- %
Net increase/(decrease) in cash and cash equivalents	(25 875 188)	(4 168 000)	(30 043 188)	-	-	(30 043 188)	(47 670 342)	(17 627 154)	159 %	184 %
Cash and cash equivalents at the beginning of the year	58 730 562	-	58 730 562	-	-	58 730 562	135 658 831	76 928 269	231 %	231 %
Cash and cash equivalents at year end	32 855 374	(4 168 000)	28 687 374	-	-	28 687 374	87 988 489	59 301 115	307 %	268 %

Refer to Note 41 for detailed explanations of material variances.

CA

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1. Presentation of Group Annual Financial Statements

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

These group 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 Basis for preparation

Statement of compliance

These accounting policies are consistent with the previous period.

Accounting policies for material transactions, events or conditions not covered by the above GRAP Standards have been developed in accordance with paragraphs 7, 11 and 12 of the GRAP 3. These accounting policies and the applicable disclosures have been based on the International Financial Reporting Standards and the International Public Sector Accounting Standards (IPSA), where applicable, in terms of Directive Five including any interpretations of such Statements issued by the Accounting Practice Board. Certain accounting policies have been developed with reference to the MFMA, for e.g. unauthorised expenditure, irregular expenditure, and fruitless and wasteful expenditure policies.

These accounting policies have been applied to ensure that the financial statements provide information that is relevant to the decision-making needs of the users and are reliable.

Offsetting

Assets, liabilities, revenues and expenses have not been offset, except when offsetting is required or permitted by a Standard of GRAP.

There are no key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying value of assets and liabilities within the next financial year.

1.4 Significant judgements and sources of estimation uncertainty

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

Judgements

In the process of applying these accounting policies, management has made the following judgement that may have a significant effect on the amounts recognised in the annual financial statements:

Cash-generating assets - The municipality classifies its cash-generating assets as those assets which are used with the objective of generating a commercial return, and where positive cash flows are expected to be significantly higher than the cost of the asset. All other assets are considered to be non-cash generating assets.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Estimates

Estimates are informed by historical experience, information currently available to management, assumptions, and other factors that are believed to be reasonable under the circumstances. These estimates are reviewed on a regular basis. Changes in estimates that are not due to errors are processed in the period of the review and applied prospectively.

Receivables from exchange and non-exchange transactions

The municipality assesses its receivables from exchange and non-exchange transactions 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 receivables from exchange and non-exchange transactions is calculated based on the grading of the category of debtors according to their payment history. An accumulation of arrear balances is an indicator of debtor delinquency. Such debtors are provided for as they are considered to be impaired due to uncertainty surrounding the recoverability of the outstanding amounts.

Provisions

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amount that will be required in future to settle the provision, management considers the weighted average probability of the potential outcomes of the provisions raised. This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes

Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the provisions.

Post-retirement benefits

The present value of the post-retirement medical aid benefit 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, future salary increases, mortality rates and future medical increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 16.

Effective interest rate

The municipality used the prime interest rate less 0.5% to discount future cash flows. The prime interest rate was 8.25% (2021: 7.25%).

Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles, so that the effect of any impairment on a group of receivables would not differ materially from the impairment, that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about probability of recovery of the debtors based on their past payment history and risk profile.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's current condition, expected condition at the end of the period of use, its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating the useful life and residual value, management considers the impact of technology and minimum service requirements of the assets.

Accounting by principals and agent

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships. Significant judgements applied as per determination of the binding agreement entered into annually with the local municipality.

Additional information is disclosed in Note 43.

Related parties

In applying judgement as to whether or not a person(s) is a related party, the Municipality considers the following:

- Whether the person(s) are 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;
- Whether the person(s) are close members of the family of person(s) that are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the Municipality.

Impairment testing

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

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

1.5 Investment property

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

Investment property is 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.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.5 Investment property (continued)

Cost model

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

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

Item	Useful life
Property - land	indefinite
Property - buildings	50 years

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

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

1.6 Property, plant and equipment

Initial recognition

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 "initial measurement" of property, plant and equipment, upon its "initial recognition" refers to property, plant and equipment's value when the current basis of accounting is first adopted, i.e. 1 July 2005. The "cost" of land and buildings on 1 July 2005 would constitute its fair value at that date as no cost is available. The "cost" of other assets would be its carrying amount (cost less accumulated depreciation) as at that date on the assumption that the carrying amounts represents the asset's fair value at 1 July 2005 if the asset was acquired prior to this date.

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.

Subsequent measurement - Cost model

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

Depreciation

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

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.6 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight-line	50 years
Furniture and fixtures	Straight-line	7 - 15 years
Motor vehicles	Straight-line	5 - 10 years
Office equipment	Straight-line	2 - 10 years
IT equipment	Straight-line	2 - 10 years
Bins and containers	Straight-line	5 - 10 years
Specialised vehicles	Straight-line	5 - 20 years
Specialised plant and equipment	Straight-line	5 - 15 years

The introduction of the new Municipal Chart of Accounts has resulted in a few changes within the classification of property, plant and equipment. The change does not specifically require a reclassification as the balance of property, plant and equipment is consistent with the prior year and does not affect presentation on the Statement of Financial Position:

- Furniture and fixtures have been consolidated with Office Equipment; and
- Specialised vehicles have been consolidated with Motor Vehicles

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

If it is not possible to estimate the recoverable amount of the individual asset, the recoverable amount of the cash-generating unit to which the asset belongs is determined.

The recoverable amount of the asset or cash-generating unit is the higher of its fair value less costs to sell and its value in use. If the recoverable amount of the asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. The reduction is an impairment loss.

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

A reversal of an impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Where a reversal occurs, the recoverable amount is limited to the carrying amount where no impairment occurred.

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.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.6 Property, plant and equipment (continued)

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

Property, plant and equipment with a cost below R1 000 is not capitalised. This is in line with the asset management policy of the Municipality.

1.7 Intangible assets

Intangible assets are initially recognised at cost.

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

An intangible asset acquired at no or nominal cost will be measured at fair value at the date of acquisition.

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.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	3 - 5 years

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

1.8 Heritage assets

Carrying amount is the amount at which an asset is recognised after deducting accumulated impairment losses.

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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.

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.

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.8 Heritage assets (continued)

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 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 VAT

The municipality accounts for Value Added Tax on the invoice basis.

1.10 Leases

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

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

Operating leases - lessor

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

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

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

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

Income for leases is disclosed under revenue in the 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.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.11 Financial instruments

Classification

The municipality classifies financial assets and financial liabilities into the following categories.

Financial assets at amortised cost.

Financial liabilities measured at amortised cost.

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or loss, which shall not be classified out of the fair value through surplus or loss category.

Initial recognition and measurement

Financial instruments are recognised initially when the municipality becomes a party to the contractual provisions of the instruments.

The municipality classifies financial instruments, or their component parts, on initial recognition as a financial asset, a financial liability or a residual interest instrument in accordance with the substance of the contractual arrangement.

Financial instruments are measured initially at fair value, except for residual interest investments for which a fair value is not determinable, which are measured at cost.

For financial instruments which are not at fair value, transaction costs are included in the initial measurement of the instrument.

Subsequent measurement

Financial assets at amortised cost are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Financial liabilities are subsequently measured at amortised cost, using the effective interest method.

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost:

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

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

Financial assets measured at cost:

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

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.11 Financial instruments (continued)

Gains and losses

A gain or loss arising from a change in a financial asset or financial liability is recognised as follows:

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

Derecognition of financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised where

- the rights to receive cash flows from the asset have expired;
- the municipality retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

Where the municipality has transferred its rights to receive cash flows from an asset, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the municipality's continuing involvement in the asset.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in surplus or deficit.

Cash and cash equivalents

Cash includes cash on hand and cash held at banks. Cash equivalents are short-term, liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

Cash and cash equivalents are classified as "Financial assets at amortised cost" and are initially measured at cost. Subsequent measurement is at amortised cost.

Short-term investments

The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

Financial assets at amortised cost are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Financial assets at amortised cost, receivable within 3 months are included in cash and cash equivalents in the Statement of Financial Position.

Investments are initially measured at fair value and subsequently at amortised cost.

Receivables from exchange and no-exchange transactions

Receivables are classified as "Financial assets at amortised cost" and are initially recognized at the fair value. Subsequent measurement is at amortised cost. An estimate is made of doubtful receivables based on a review of outstanding amounts at year end. Bad debts are written off during the year in which they are identified based on the assessment on the recoverability of the receivable. Amounts that are receivable within 12 months from the reporting date are classified as current.

Payables from exchange transactions

Payables are classified as "Financial liabilities at amortised cost" and are initially recognized at the fair value of the present obligation of a past event. Subsequent measurement is at amortised cost.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.12 Employee benefits

Short-term employee benefits

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

Accrued leave pay

The leave pay accrual is calculated taking into account the actual number of days accrued and the remuneration as at 30 June.

Post-employment benefits

The municipality provides certain post retirement medical benefits by funding the medical aid contributions of certain retired members of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service), on retirement, is entitled to remain a continued member of such medical aid fund, in which case the member is liable for 30% of the medical aid membership fee, and the municipality for the remaining 70%. The medical aid contributions are charged to the Statement of Financial Performance as they fall due.

The retirement benefits are calculated in accordance with the rules of the funds. Full actuarial valuations are performed on a regular basis on defined benefit contribution plans, unless exemption to do so has been obtained from the Registrar of Pension Funds.

The municipality's net obligation in respect of defined benefit retirement and post retirement plans are calculated separately for each plan by estimating the amount of future benefits that employees have earned in return for their service in the current and prior periods. These benefits are discounted to determine their present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The actuarial valuation is performed by an independent qualified actuary on a regular basis, using the projected unit credit method. When the calculation results in a benefit to the municipality, the recognised asset is limited to the net total of any unrecognised past service costs and the present value of any future refunds from the plan or reductions in future contributions to the plan. The actuarial gain is transacted in full in the Statement of Financial Performance and not calculated and accounted for according to the "corridor" method.

When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in the Statement of Financial Performance on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in the Statement of Financial Performance.

1.13 Provisions

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.

Provisions are reviewed at each reporting date and adjusted to reflect the current 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).

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.13 Provisions (continued)

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

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

A contingent liability is a possible obligation depending on whether some uncertain future event occurs now wholly within the control of the municipality, or a present obligation by payment is not probable or the amount cannot be measured reliably.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 31.

1.14 Revenue from exchange transactions

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

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

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

Measurement

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

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

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 .

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.15 Revenue from non-exchange transactions

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.

Donations are recognised on a cash receipt basis, or where the donation is in the form of property, plant and equipment, at the fair value of the asset at the date of acquisition

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment is brought into use. Where public contributions have been received, but the municipality has not met the condition, a liability is recognised.

Contributed property, plant and equipment is recognised when ownership of the items of property, plant and equipment is transferred to the municipality

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act no. 56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain.

Grants, transfers and donations

Unconditional grants and receipts

Revenue from unconditional grants is recognised when it is probable that the economic benefits or service potential will flow to the municipality and the amount of the revenue can be measured reliably. Since these grants are unconditional and there are no attached stipulations, the grants are recognised as revenue or, if the asset recognition criteria have been met, as assets in the reporting period in which they are received or receivable.

Conditional grants and receipts

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

1.16 Investment income

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

1.17 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.

1.18 Comparative figures

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

1.19 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.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.20 Fruitless and wasteful expenditure

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

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

1.21 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 the provincial government.

National Treasury practice note no. 4 of 2008/2009 which was issued in terms of sections 76(1) to 76(4) of the MFMA requires the following (effective from 1 April 2008):

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

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.

1.22 Budget information

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 2021/07/01 to 2022/06/30.

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

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

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.23 Unutilised conditional grants

Initial recognition

Unutilised conditional grants are reflected on the Statement of Financial Position as a short term portion of unspent conditional grants. They represent unspent government grants, subsidies and contributions from the public. The following conditions are set for the creation and utilisation of these creditors:

- The grant received is initially recognised at cost as unspent conditional grants.
- Whenever an item of property, plant and equipment is funded from a grant, an amount equal to the purchase price is transferred from the unspent conditional grants account to the operating account on the Statement of Financial Performance as revenue.
- Whenever operational expenditure is funded from a grant, an amount equal to the expenditure is transferred from the unspent conditional grants account to the operating account on the Statement of Financial Performance as revenue to offset the expenditure which was expensed through the operating account.
- The cash which backs the unspent portion is invested until utilised.
- Interest earned on the investment is treated in accordance with grant conditions. If the grant conditions indicate that interest is payable to donors then interest earned on unutilised conditional grants is allocated to the funds and is not recognised in the Statement of Financial Performance.
- The unspent grant is classified as "Financial liabilities at amortised cost".

Subsequent measurement

Unspent conditional grants are subsequently measured at amortised cost if material.

Derecognition

Unspent conditional grants are derecognised when the balance was expended per the conditions as set for a grant.

1.24 Accounting by principals and agents

Identification

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.24 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

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

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

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with para 45. of the requirements of GRAP 109.

The municipality, as an agent, recognises only that portion of the revenue and expenses it receives or incurs in executing the transactions on behalf of the principal in accordance with para 46. of the requirements of GRAP 109.

The municipality recognises assets and liabilities arising from principal-agent arrangements in accordance with the requirements of para. 50 of GRAP 109.

The municipality is in the process of designing and implementing its own policy to address the specific requirements of GRAP 109.

1.25 Deposits paid

Deposits paid are disclosed as current assets and are carried at amortised cost.

Deposits paid primarily relate to services provided to the Municipality such as electricity, post office services and parking facilities used.

1.26 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
-----------------	------	------

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:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> GRAP 110 (as amended 2016): Living and Non-living Resources 	01 April 2020	Expected impact has not been assessed

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 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none"> IGRAP 21: The Effect of Past Decisions on Materiality 	01 April 2023	Expected impact has not been assessed
<ul style="list-style-type: none"> GRAP 25 (as revised): Employee Benefits 	01 April 2023	Expected impact has not been assessed
<ul style="list-style-type: none"> iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction 	01 April 2022	Expected impact has not been assessed
<ul style="list-style-type: none"> GRAP 104 (as revised): Financial Instruments 	01 April 2023	Expected impact has not been assessed

3. Receivables from exchange transactions

Accrued interest	1 804 543	525 459
Rental	44 473	29 555
Allowance for impairment	(1 680 991)	(1 665 773)
Prepayments	702 533	593 180
Job evaluations	2 796 059	1 652 020
	3 666 617	1 134 441

Receivables from exchange transactions past due but not impaired

Receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2022, R 15 802 (2021: R 15 802) were past due but not impaired.

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

1 month past due	15 802	15 802
------------------	--------	--------

Receivables from exchange transactions impaired

As of 30 June 2022, receivables from exchange transactions of R - (2021: R -) were impaired and provided for. The amount of the provision was R 28 971 as of 30 June 2022 (2021: R 13 753).

The ageing of these receivables is as follows:

Over 90 days	1 680 991	1 665 773
--------------	-----------	-----------

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
-----------------	------	------

3. Receivables from exchange transactions (continued)

Reconciliation of provision for impairment of trade and other receivables

Opening balance	(1 665 773)	(1 743 497)
Provision for impairment	(15 218)	77 724
	<u>(1 680 991)</u>	<u>(1 665 773)</u>

Receivables from exchange transactions primarily relates to rental debtors and the allowance for impairment relates to rental debtors only.

4. Receivables from non-exchange transactions

General debtors	1 261 280	1 523 769
Other receivables	25 060	15 680
Allowance for impairment	(1 440)	(1 440)
Salaries and wages debtors	289 744	281 813
	<u>1 574 643</u>	<u>1 819 822</u>

Receivables from non-exchange transactions past due but not impaired

Receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2022, R 12 694 (2021: R 12 694) were past due but not impaired.

The amount of R12 694 is owed by SANRAL for a property disposed of by the Municipality. The property is in the process of being transferred to the purchaser.

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

Over 90 days	12 694	12 694
--------------	--------	--------

Receivables from non-exchange transactions impaired

As of 30 June 2022, other receivables from non-exchange transactions of R 1 653 459 (2021: R 1 653 459) were impaired and provided for.

The ageing of these receivables is as follows:

Over 90 days	1 440	1 440
--------------	-------	-------

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

Opening balance	(1 440)	(366 351)
Provision for impairment	-	364 911
	<u>(1 440)</u>	<u>(1 440)</u>

5. VAT receivable

VAT	3 042 279	1 360 581
-----	-----------	-----------

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

VAT is accounted for on the invoice basis. No discounting was performed.

VAT refunds from February to June 2022 have not been received as at year end.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
-----------------	------	------

6. Deposits paid

Deposits - Electricity	1 410	1 410
Deposits - Post Office	5 000	5 000
Deposits - Parking Grace Street	9 000	9 000
	15 410	15 410

7. Short-term investments

Short-term balances at year end	141 000 000	100 000 000
---------------------------------	-------------	-------------

All short-term investments that will mature in more than 3 months, but less than 12 months after the reporting date, is classified as short term investments and do not form part of cash and cash equivalents. Refer note 44 for a summary of short-term investment accounts.

8. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	6 100	6 100
Bank balances	13 982 389	23 652 731
Short-term deposits	74 000 000	112 000 000
	87 988 489	135 658 831

Short-term deposits

Cash and cash equivalents are classified as a financial asset under loans and receivables at amortised costs. All short term deposits mature within 3 months after the reporting date.

No discounting was performed due to the short term nature of the cash turnover and the fact that all investments earned interest. The fair value cash and cash equivalents approximates their carrying amounts. No cash deposits were ceded as collateral.

The return on investment for 2022 fluctuates between 3.85% and 5.97%. (2021: 3.52% and 7.95%).

Short-term investments

Call Account Deposits	74 000 000	112 000 000
-----------------------	------------	-------------

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand 2022 2021

8. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
ABSA Limited, 32 Govan Mbeki Avenue, Gqeberha, Current Account (Primary Account) 1640-000-062	2 451 317	3 393 580	2 823 650	2 411 608	3 539 169	2 823 650
ABSA Limited (Call Account) 9099288999	74 000 000	112 000 000	23 000 000	74 000 000	112 000 000	23 000 000
ABSA Limited, Current Account (Primary Account - CDDA) 40-8134-2536	1 004 741	505 870	5 324 579	1 004 741	505 870	5 324 579
ABSA Limited, Call Account (CDDA) 92-8612-7645	2 127 991	3 200 072	2 325 845	2 127 991	3 200 072	2 332 562
ABSA Limited, Investment Account (CDDA) 93-5552-0986	8 438 049	16 407 620	28 786 787	8 438 049	16 407 620	28 786 787
Total	88 022 098	135 507 142	62 260 861	87 982 389	135 652 731	62 267 578

Cash book balances includes an amount of R6 100 which represents cash on hand.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

9. Investment property

	2022		2021		
Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	(1 678 066)	10 964 934	12 643 000	(636 182)	12 006 818

Reconciliation of investment property - 2022

Investment property

Opening balance	12 006 818
Depreciation	(120 904)
Impairment loss	(920 980)
Total	10 964 934

Reconciliation of investment property - 2021

Investment property

Opening balance	12 127 722
Depreciation	(120 904)
Total	12 006 818

No operating expenditure was incurred by the Municipality on the investment properties during the current and previous financial year.

Investment properties are leased mainly to organs of state and the rentals are not market related. The rental revenue received for the year is R60 264 (2021: R60 563).

A register containing the information required by section 63 of the Municipal Finance Management Act 56 of 2003 is available for inspection at the registered office of the Sarah Baartman District Municipality.

Refer to Appendix A for more details.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2022		2021			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	1 754 636	-	1 754 636	1 754 636	-	1 754 636
Buildings	7 246 840	(1 072 231)	6 174 609	7 246 840	(943 654)	6 303 186
Specialised plant and machinery	3 950 414	(1 737 553)	2 212 861	3 708 083	(1 527 603)	2 180 480
Motor vehicles	11 721 692	(6 062 235)	5 659 457	11 721 692	(5 242 031)	6 479 661
Office equipment	7 872 526	(6 017 728)	1 854 798	7 775 539	(5 674 730)	2 100 809
IT equipment	4 972 414	(3 631 658)	1 340 756	4 569 693	(3 418 877)	1 150 816
Bins and containers	98 988	(96 162)	2 826	98 988	(88 130)	10 858
Total	37 617 510	(18 617 567)	18 999 943	36 875 471	(16 895 025)	19 980 446

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Depreciation	Impairment loss	Total
Land	1 754 636	-	-	-	-	1 754 636
Buildings	6 303 186	-	-	(128 577)	-	6 174 609
Specialised plant and machinery	2 180 712	284 365	(1)	(209 950)	(42 033)	2 213 093
Motor vehicles	6 479 660	-	-	(820 146)	(58)	5 659 456
Office equipment	2 100 577	116 863	(12)	(359 659)	(3 204)	1 854 565
IT equipment	1 150 817	606 787	(7 583)	(402 343)	(6 922)	1 340 756
Bins and containers	10 858	-	-	(8 032)	-	2 826
	19 980 446	1 008 015	(7 596)	(1 928 707)	(52 217)	18 999 941

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	1 754 636	-	-	-	-	-	1 754 636
Buildings	6 431 822	-	-	-	(128 636)	-	6 303 186
Specialised plant and machinery	518 239	125 282	(4)	1 782 673	(245 241)	(237)	2 180 712
Motor vehicles	7 193 969	-	-	-	(714 309)	-	6 479 660
Office equipment	2 100 067	288 352	(601)	-	(285 444)	(1 797)	2 100 577
IT equipment	1 041 365	401 828	(6 952)	-	(283 251)	(2 173)	1 150 817
Bins and containers	18 889	-	-	-	(8 031)	-	10 858
Work in progress	1 099 008	683 665	-	(1 782 673)	-	-	-
	20 157 995	1 499 127	(7 557)	-	(1 664 912)	(4 207)	19 980 446

Reconciliation of Work-in-Progress 2021

	Included within Specialised Plant and Machinery	Total
Transfer to completed items	1 782 673	1 782 673

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
-----------------	------	------

10. Property, plant and equipment (continued)

The introduction of the new Municipal Chart of Accounts has resulted in a few changes within the property, plant and equipment note. The changes does not specifically require a reclassification as the balance of property, plant and equipment is consistent with the prior year and does not affect presentation of the Statement of Financial Position:

- Furniture and Fittings have been consolidated with Office Equipment; and
- Specialised vehicles have been consolidated with Motor Vehicles.

Therefore, no reclassification was considered necessary.

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.

Refer to Appendix A for more details.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

11. Intangible assets

	2022		2021			
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	4 469 427	(3 177 504)	1 291 923	3 477 516	(2 617 447)	860 069

Reconciliation of intangible assets - 2022

Computer software

Opening balance	860 069	679 916	(248 062)	1 291 923
-----------------	---------	---------	-----------	-----------

Reconciliation of intangible assets - 2021

Computer software

Opening balance	628 751	722 212	(487 477)	860 069
-----------------	---------	---------	-----------	---------

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
-----------------	------	------

11. Intangible assets (continued)

Computer Software

Financial Systems (APPX)

The financial system was initiated through an annual licence with no initial purchase price. The software was then internally developed to meet the financial and other processing requirements of the municipality. In January 2020, Council approved the change of financial system from Sage Evolution to the in-house owned APPX Financial System with effect from 1 July 2020. Certain modules of the APPX Financial System were further developed to ensure that the municipality meets the Municipal Standard Chart of Accounts requirements before the 2020/21 financial year. The costs of this development were capitalised to the cost of computer software.

mSCOA Budget System (APPX)

An mSCOA compliant budget mode was developed on the in-house APPX system in order to ensure that the municipality meets Municipal Standard Chart of Accounts requirements before the 2020/21 financial year. The costs of this development were capitalised to the cost of computer software.

Further costs of R679 916 relating to the development of this system, were capitalised to the cost of computer software during the current financial year.

Performance Management System

The performance management system was developed with the use of a consultant. The asset meets the definition of an intangible asset, but does not meet the recognition criteria as the internal cost cannot be measured reliably. The cost of the consultant however amounted to R258 959. This amount has not been capitalised to the cost of the computer software.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

12. Heritage assets

	2022	2021				
Cost / Valuation	Accumulated impairment losses	Cost / Valuation	Accumulated impairment losses	Carrying value		
Conservation areas	16 212 500	(536 500)	15 676 000	16 212 500	(536 500)	15 676 000

Reconciliation of heritage assets 2022

Conservation areas

Opening balance	15 676 000
Total	15 676 000

Reconciliation of heritage assets 2021

Conservation areas

Opening balance	15 676 000
Total	15 676 000

Heritage assets held at cost

A register containing the information required by section 63 of the Municipal Finance Management Act 56 of 2003 is available for the inspection at the registered office of the Sarah Baartman District Municipality.

Refer to Appendix A for more details.

Refer to note 27 for details of the impairment losses recognised.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand 2022 2021

13. Long-term receivables

Disciplinary action recoveries	126 199	138 191
--------------------------------	---------	---------

Classified as a financial asset and measured at amortised cost.

14. Payables from exchange transactions

Employee benefits*	6 548 904	6 051 155
Other payables	7 688 320	8 650 039
	14 237 224	14 701 194

* Not financial instruments.

Normal terms of repayment is 30 days and no discounting was calculated.

Makana Municipality - MIG Interest

The MIG grant allocation of Makana Local Municipality was transferred to SBDM in prior years to ensure proper management of the grant funds in terms of the MFMA and the grant conditions. A Service Level Agreement (SLA) was entered into between the SBDM and Makana Local Municipality to manage the proper disbursement of the MIG allocation as well as the approved rollover amount. The grant was fully spent during the 2018/19 financial year. In terms of the SLA, the interest that accrues on the funds administered by SBDM on behalf of Makana Municipality, should be utilised for infrastructure projects of Makana Municipality. Claims amounting to R1 252 049 (2021: R0) were paid in the current financial year.

Payments in Advance - Other

When the roadworks, emergency medical services and health function was transferred to the Province, the municipality was requested to administer the payments to pensioners as the provincial system could not accommodate past employees. An agreement was entered into between the municipality and Province whereby Province would pay the pensioners' annual amount to the municipality and the municipality would administer the monthly payments. Included in payments in advance - other is an amount of R384 614 (2021: R424 896) relating to the payments to pensioners.

Employee benefits	-	-
Accrued annual bonus	1 358 749	1 195 120
Accrued leave pay	3 552 553	3 187 919
Performance bonus	361 256	1 022 155
Long service bonus	1 101 795	635 426
Other employee costs	174 551	10 535
	6 548 904	6 051 155
Other payables	-	-
Payables and accruals	1 002 276	818 376
Unallocated deposits	-	2 300
Accrued interest - MIG	2 040 766	3 292 815
Advance payments	384 614	424 896
Trade and other payables	4 260 664	4 111 652
	7 688 320	8 650 039

15. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Rural Roads Asset Management Grant	-	811 681
Financial Management Grant	-	169 532
Expanded Public Works Program (EPWP)	-	63 858
Somerset Industrial Park Project Grant	-	10 753 263
	-	11 798 334

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

2022

2021

15. Unspent conditional grants and receipts (continued)

See note 18 for the disclosure requirements in terms of section 123(1) of the MFMA. A complete list of all conditions are available for viewing at the municipality during office hours.

16. Employee benefit obligations

Post Retirement fund benefits

The municipality's post-employment medical benefit is a post-employment defined benefit plan and consists of a commitment to pay a portion of the pensioners' post-employment medical scheme contributions. This benefit is also generated in respect of dependents who are offered continued membership of the medical scheme on the death of the primary member.

The municipality is committed to pay subsidies broadly as follows:

In-service members will receive a post-employment subsidy of 70% of the contribution payable should they be a member of a medical scheme at retirement.

All continuation members and their eligible dependants receive a 70% subsidy. Upon a member's death-in-service or death-in-retirement, the surviving dependants will continue to receive the same subsidy.

The municipality's net obligation in respect of post employment medical benefits was calculated by One Pangaea Expertise & Solutions. The provision was established for the purpose of generating interest that is utilised to fund the yearly medical scheme commitments in respect of post employment medical benefits. The expected future outflows is dependant upon life expectancy of existing members and their spouses.

62 Principle members are currently covered by the fund (2021: 70).

Valuation method

The death in-service benefit is regarded as a post employment liability under the requirements of the Standards of GRAP 25.

Post retirement benefits

The method for accrual that has been used in the valuation is based on the length of service of the valuation date relative to the total potential service until the expected retirement date. The future-service liability is the difference between the total liability and the past service liability.

Accrued defined benefit obligation

The accrued liability is the value of the employer's share of the contribution-based liability.

Current service cost

The current costs for the following year is determined as the amount assumed to accrue to the member over the twelve months.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand 2022 2021

16. Employee benefit obligations (continued)

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

Carrying value

Long-term portion of post-employment medical benefit	(56 766 894)	(58 605 589)
Short-term portion of post-employment medical benefit	(4 773 175)	(4 594 263)
	(61 540 069)	(63 199 852)

Non-current liabilities	(56 766 894)	(58 605 589)
Current liabilities	(4 773 175)	(4 594 263)
	(61 540 069)	(63 199 852)

The funded status is calculated by comparing the accrued liabilities, as at the valuation date, with the plan assets held. The funded status, as at valuations dates, is shown below.

Accrued liability

Post-employment medical benefit	(61 540 069)	(63 199 852)
---------------------------------	--------------	--------------

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

Opening balance	63 199 852	58 410 026
Contributions (benefits) paid	(4 427 226)	(4 529 188)
Current service costs	716 210	626 302
Actuarial (gain)/loss on post employment medical benefit	(3 880 692)	2 636 368
Interest costs (discounting)	5 931 925	6 056 344
	61 540 069	63 199 852

The estimated expected timing of resulting outflows of post employment medical benefits are:

Within one year	4 773 175	4 594 263
Later than one year, not later than five years	13 786 251	13 785 789
Later than five years	42 980 643	44 819 800
	61 540 069	63 199 852

Accumulative actuarial gains and losses

Balance at the beginning of the year	(1 220 225)	(3 856 593)
Projected during the year	(3 880 692)	2 636 368
	(5 100 917)	(1 220 225)

The present value of the defined benefit obligation for the current annual period compared to the previous four annual periods are as follows:

Financial period 2017/2018	58 523 945
Financial period 2018/2019	60 051 936
Financial period 2019/2020	58 410 026
Financial period 2020/2021	63 199 852
Financial period 2021/2022	61 540 069

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
-----------------	------	------

16. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	11,99 %	9,74 %
Consumer price inflation	7,10 %	5,61 %
Health care cost inflation	8,60 %	7,11 %
Maximum subsidy inflation rate	3,12 %	2,46 %

The discount rate was determined by using the Bond Exchange Zero Coupon Yield as at 30 June 2022 is 11.99% per annum, and the yield on the inflation-linked bonds of similar terms was 4.10% per annum, implying an underlying expectation of inflation of 7.10% per annum.

A healthcare cost inflation rate of 8.60% was assumed. This is 1.50% in excess of the expected inflation over the expected term of the liability, consistent with the previous actuary.

17. Accumulated surplus

The accumulated surplus is reserved for the following purposes:

General	208 584 354	198 964 937
General	178 584 354	157 166 603
Relocation costs allocated to surplus	30 000 000	30 000 000
Unspent conditional grants	-	11 798 334
	<u>208 584 354</u>	<u>198 964 937</u>

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
18. Government grants & subsidies		
Operating grants		
Equitable share	100 709 533	101 462 000
Grant funding - expenditure reimbursement	15 569 494	22 121 591
Department of Transport Grant - Upgrading of Makhanda Taxi Routes	5 000 000	-
Department of Economic Development Environmental Affairs and Tourism Grant - Waste Management Materials	2 000 000	-
	123 279 027	123 583 591
Conditional and Unconditional		
The following conditional grant was received by the municipal entity from the Provincial Economic Stimulus Fund:		
Somerset East Industrial Park	13 271 983	30 791 992
Conditions met -transferred to revenue	(10 329 955)	(17 520 009)
	2 942 028	13 271 983
Equitable Share		
In terms of the Constitution, this grant is used to finance the operations of the institution.		
DORA		
Balance unspent at beginning of year	1 045 071	1 388 653
Current-year receipts	4 364 000	4 258 000
Conditions met - transferred to revenue	(5 409 071)	(4 601 582)
	-	1 045 071
Conditions still to be met - remain liabilities (see note 15).		
The following conditional grants were received through the DORA allocation during the financial year:		
R 1 000 000 - Finance Management Grant (FMG)		
R 2 289 000 - Rural Roads Asset Management Grant (RRAMS)		
R 1 075 000 - Expanded Public Works Programme (EPWP)		
Refer to Note 42 for Disclosure of Grants and Subsidies in terms of Section 123 Of MFMA, 56 of 2003.		
19. Interest earned		
Interest earned		
Interest received - Investment	11 175 385	10 384 188
Interest received - Cash and cash equivalents	290 175	318 210
Interest received - Other	72	612
	11 465 632	10 703 010
20. Other revenue		
Bad debts recovered	-	301 333
Contribution from skills development fund	217 382	53 508
Insurance refund received	11 096	-
Other income	282 870	9 900
Settlement discount received	52 743	29 659
Tender deposit	87	956
	564 178	395 356

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
21. Remuneration of employees		
Basic	41 328 931	36 333 804
Bonus	2 419 433	1 492 212
Medical aid - contributions	1 988 045	1 517 776
Unemployment insurance fund	195 796	150 514
Workmens compensation	310 215	129 711
Skills development levy	448 941	330 273
Other payroll levies	11 248	9 632
Travel, motor car, accommodation, subsistence and other allowances	1 597 002	1 325 340
Overtime payments	99 510	68 695
Pension fund contributions	3 871 160	3 086 257
Housing benefits and allowances	321 410	267 079
Other allowances	276 900	229 488
Other short term costs	2 369 294	2 434 879
	55 237 885	47 375 660

The remuneration of employees are determined in accordance with the task grade and the applicable notch allocated to the employees in their positions. The municipality is graded as a Category 5 municipality which affects the remuneration ranges of positions of employees. The municipality operates in accordance with the Collective Agreements entered into between the municipality and Bargaining Council.

Remuneration of Municipal Manager

Annual Remuneration	921 727	1 223 448
Car Allowance	104 000	156 000
Cellphone Allowance	4 800	7 200
Contributions to UIF, Medical and Pension Funds	14 930	13 866
	1 045 457	1 400 514

Mr D M Pillay was appointed on 1 March 2017 as Municipal Manager for a period of 5 years and left the employment of the Municipality on 28 February 2022. The remuneration reflected is for a period of 8 months.

Remuneration of Municipal Manager

Annual Remuneration	105 054	-
Car Allowance	10 000	-
Cellphone Allowance	5 000	-
Contributions to UIF, Medical and Pension Funds	1 212	-
	121 266	-

Ms U Daniels was appointed as Municipal Manager on 1 June 2022 for a period of 5 years. The remuneration reflected is for 1 month.

Remuneration of the Director: Finance and Corporate Services

Annual Remuneration	1 057 476	793 107
Car Allowance	69 984	52 488
Cellphone Allowance	6 000	4 500
Contributions to UIF, Medical and Pension Funds	16 337	11 871
	1 149 797	861 966

Mrs K Abrahams was appointed as Director: Finance and Corporate Services on 1 October 2020 for a period of 5 years. The prior year remuneration reflected is for a period of 9 months.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand 2022 2021

21. Remuneration of employees (continued)

Remuneration of Director: Infrastructure Development and Community Services

Annual Remuneration	1 007 460	1 007 460
Car Allowance	120 000	120 000
Cellphone allowance	6 000	6 000
Contributions to UIF, Medical and Pension Funds	16 390	12 107
	1 149 850	1 145 567

Ms T Betha was appointed on 1 January 2018 as Director: Infrastructure Development and Community Services for a period of 5 years.

Remuneration of the Director: Planning and Economic Development

Annual Remuneration	1 045 241	1 007 460
Car Allowance	110 000	120 000
Cellphone allowance	5 500	6 000
Contributions to UIF, Medical and Pension Funds	16 690	12 420
	1 177 431	1 145 880

Ms U Daniels was appointed on 1 January 2018 as Director Planning and Economics Development for a period of 5 years.

Ms. U Daniels was appointed as Municipal Manager on 1 June 2022. The current remuneration is for 11 months.

Remuneration of the Chief Executive Officer (CDDA)

Annual Remuneration	1 142 384	1 207 272
Car Allowance	120 000	120 000
Performance Bonuses	97 741	1 608
Cellphone allowance	15 369	15 229
Leave accrued	-	27 255
	1 375 494	1 371 364

22. Remuneration of councillors

Executive Mayor	815 999	944 021
Speaker	760 968	761 281
Portfolio Councillor: Special Programmes	261 313	716 458
Portfolio Councillor: Finance	665 336	717 086
Portfolio Councillor: Corporate Services	665 670	716 453
Portfolio Councillor: Infrastructure Development and Community Services	665 392	717 086
Portfolio Councillor: Planning and Economic Development	664 967	717 086
District Councillors	2 216 505	1 890 817
Board members	244 094	186 788
	6 960 244	7 367 076

In-kind benefits

The Executive Mayor and Mayoral Committee Members are full-time Councillors and are provided with offices and secretarial support at the costs of the Council. The salaries, allowances and benefits of the Councillors of the Municipality are within the upper limits of the framework envisaged in section 2019 of the constitution.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
23. Repairs and maintenance		
Repairs and maintenance - Grounds and buildings	371 081	338 478
Repairs and maintenance - Plant and machinery	379 426	365 868
Repairs and maintenance - Computer equipment	156 392	78 715
Repairs and maintenance - Furniture and office equipment	-	9 783
	906 899	792 844
24. Grants and subsidies paid		
Conditional grant expenditure	4 486 790	3 426 451
Fire Services Subsidies	8 082 297	4 475 298
Environmental Health Subsidies	4 782 283	8 869 955
Sundries	-	128 076
	17 351 370	16 899 780
Conditional grant expenditure has been funded by:		
Municipal Disaster Relief Grant (MDRG) - Covid expenditure	-	126 651
Finance Management Grant (FMG) - Financial Sustainability	695 652	347 826
Rural Roads Asset Management Grant (RRAMS) - Road Maintenance Systems	2 656 574	2 015 832
Expanded Public Works Programme (EPWP) - Volunteers	1 134 564	936 142
	4 486 790	3 426 451

Fire Services & Environmental Health Subsidies

The municipality has entered into a Principal-agent relationship with its local municipalities due to the requirements of the National Health Amendments Act, 2013 (Act No.12 of 2013) for the Environmental Health Services.

Local municipalities are given a subsidy to execute the service on behalf of the District Municipality. Revenue that is collected by the Local Municipalities is not transferred to the District Municipality and the assets that are bought by the subsidy are owned by the Local Municipality.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
25. General expenses		
Advertising	1 683 238	1 102 491
Auditors remuneration	3 843 705	3 891 857
Congress and visits	1 273 009	523 597
Legal expenses	143 961	384 031
Environmental health	385 684	95 064
Computer expenses	266 659	294 413
Catering	664 057	918 735
Interview expenses	139 460	141 687
Insurance	566 802	494 294
Publications	243 102	41 399
Fuel and oil	1 029 073	825 403
Printing and stationery	1 034 611	939 759
Subscriptions	661 730	654 492
Telephone and fax	151 649	172 192
Training and development	256 577	442 581
Rental expense	181 102	175 045
Re-imbursive travel	597 253	199 480
Covid 19 - Sanitising public spaces	-	50 201
Covid 19 - Community support	-	1 634 140
Covid 19 - Community awareness	-	25 500
Utilities	1 024 618	954 497
Study grants	177 839	137 586
Project costs (detailed breakdown below)	22 540 241	32 112 935
Licences	692 036	1 493 041
General - other	946 499	682 887
	38 502 905	48 387 308

Detailed breakdown for Project Costs with over R 500,000.00 expenditure

Agricultural Support	300 000	-
Beef Project China	500 000	138 210
Creative Industries	1 962 552	683 000
Develop Disaster Management Services By Laws	64 000	69 000
Development of EHS By Laws	173 882	-
Development of Water Service Development Plans	348 114	-
Develop Disaster Management Plans	627 800	583 879
Develop District Development Model for SBDM	379 674	144 900
Develop District Wide Infrastructure Plans	-	490 025
Education And Awareness Campaign: Volunteers	234 692	-
Emergency Contingency	-	54 738
LED Capacity Building Training	158 396	-
Public Participation	175 930	135 779
Relocation SBDM offices	-	65 070
Support to LMs - Bus Terminal Construction	-	257 457
Support to LMs - District Job Evaluations	734 656	966 461
Support to LMs - Fire equipment and machinery assistance	284 365	1 309 575
Support to LMs - Fire station construction	154 489	386 338
Support to LMs - Fire training	899 259	881 851
Support to LMs - IDP processes	198 638	145 697
Support to LMs - Improving audit outcomes	1 909 126	2 370 854
Support to LMs - Legal Services	84 372	-
Support to LMs - Local tourism and tourism awareness	700 000	1 538 426
Support to LMs - Performance Management	60 000	-
Support to LMs - Roads Construction	149 620	-
Support to LMs - Roadshows	-	1 417 214
Support to LMs - Spacial Development Framework	622 696	409 562
Support to LMs - SMME	817 028	1 549 068
Support Sports events	68 560	190 000

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
25. General expenses (continued)		
Support to LMs - Technical Town Planning	3 567	8 628
War on leaks	-	500 000
Women and Disability empowerment programmes	32 600	49 524
Somerset Industrial Park	8 652 149	15 240 623
WSA support	1 690 290	1 197 335
Youth Fund	388 660	725 000
Fencing Project	165 126	604 721
	22 540 241	32 112 935
26. Contracted services		
Outsourced Services		
Consultant - mSCOA system	382 936	745 951
Cleaning Services	695 394	402 436
Internal Auditors	785 779	798 298
Security Services	583 372	600 014
Consultants and Professional Services		
Professional Services	11 431	204 234
	2 458 912	2 750 933
27. Impairment of assets		
Impairments		
Property, plant and equipment	10 185	3 370
In assessing whether there is any indication that the asset may be impaired, the asset was found to be significantly damaged. The recoverable amount of the asset was based on its fair value less costs to sell.		
Investment property	920 980	-
In assessing whether there is any indication that the asset may be impaired, the asset was found to be significantly damaged. The recoverable amount of the asset was based on its fair value less costs to sell.		
Special plant and equipment	42 033	237
In assessing whether there is any indication that the asset may be impaired, the asset was found to be significantly damaged. The recoverable amount of the asset was based on its fair value less costs to sell.		
IT Equipment	-	600
In assessing whether there is any indication that the asset may be impaired, the asset was found to be significantly damaged. The recoverable amount of the asset was based on its fair value less costs to sell.		
	973 198	4 207
28. Loss on disposal of assets and liabilities		
Loss on disposal of property, plant and equipment	7 596	7 556

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
29. Cash used in operations		
Surplus	9 804 168	694 347
Adjustments for:		
Depreciation and amortisation	2 297 673	2 259 082
Loss on disposal of assets	7 596	7 556
Accrued interest	-	(15 829)
Impairment of assets	973 198	4 207
Increase/(Decrease) in provision for doubtful debts	15 218	(442 636)
Prior year errors	11 992	(78 726)
Loss / (gain) on actuarial valuation for post employment medical benefits	(3 880 692)	2 636 368
Service costs	716 210	626 302
Discounting of post employment medical benefit obligation	5 931 925	6 056 344
Changes in working capital:		
Receivables from exchange transactions	(1 403 355)	285 104
Receivables from non-exchange transactions	(898 861)	(1 085 284)
Payables from exchange transactions	(650 220)	311 530
VAT	(1 681 698)	(473 447)
Unspent conditional grants and receipts	(11 798 335)	(17 636 421)
	(555 181)	(6 851 503)

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand 2022 2021

30. Prior period errors

During the year, the following errors were noted in the annual financial statements submitted in the prior year. These errors have been corrected retrospectively through restatements of the prior year amounts through journals in the financial accounting system and through correcting the misrepresented column in the annual financial statements.

The errors in the prior period relate to the purchase of computer equipment which was not capitalised as required. This resulted in an overstatement of expenditure and understatement of property, plant and equipment. In addition, motor vehicles with a carrying value of R73 115 were incorrectly disposed of. These motor vehicles have since been brought back onto the books of the Municipality.

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

STATEMENT OF FINANCIAL POSITION	Previously reported	Correction of error	Restated 2021
Non-Current Assets	-	-	-
Property, plant and equipment	19 730 779	249 667	19 980 446
Cash and cash equivalents	135 672 598	(13 767)	135 658 831
	-	-	-
Current Liabilities	-	-	-
Unspent conditional grants	13 261 184	(1 462 850)	11 798 334
Payables from exchange transactions	12 901 381	1 799 813	14 701 194
	-	-	-
TOTAL ASSETS	288 416 208	234 401	288 650 609
TOTAL LIABILITIES	91 195 456	(1 496 076)	89 699 380
NET ASSETS	197 220 752	345 893	197 566 645

STATEMENT OF FINANCIAL PERFORMANCE	Previously reported	Correction of error	Restated 2021
Income	-	-	-
Interest received	10 118 980	584 030	10 703 010
	-	-	-
Depreciation	(1 742 850)	(28 755)	(1 771 605)
Other grants and subsidies paid	(17 922 858)	17 922 858	-
Conditional grant expenditure	(1 393 763)	1 393 763	-
Grants and subsidies paid	-	(16 899 780)	(16 899 780)
Note 24 - Conditional grant expenditure	(3 631 757)	205 306	(3 426 451)

ACCUMULATED SURPLUS adjustments	Previously reported	Correction of error	Restated 2021
Opening balance as previously reported	197 519 049	-	197 519 049
Prior period errors: Cash and cash equivalents	-	(13 767)	(13 767)
Property, plant and equipment	-	73 115	73 115
Payables from exchange transactions	-	194 135	194 135
Unspent conditional grants	-	(78 260)	(78 260)
Balance at 01 July 2020 as restated	197 519 049	175 223	197 694 272
Deficit for the year	(80 325)	-	(80 325)
Prior period errors errors: Interest income	-	(13 767)	(13 767)
Depreciation	-	(28 755)	(28 755)
Conditional grant expenditure	-	205 306	205 306
Employee costs	-	(210 088)	(210 088)
	197 438 724	(127 629)	197 566 643

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021	
30. Prior period errors (continued)			
Reclassifications	Previously reported	Reclassified	Restated 2021
Statement of Financial Position	-	-	-
Current Assets	-	-	-
Receivables from exchange transactions	-	-	-
Salaries and wages debtors	281 813	(281 813)	-
Prepayments	-	593 180	593 180
Allowance for impairment	(13 753)	(1 620 020)	(1 665 773)
Job evaluations	-	1 652 020	1 652 020
Receivables from non-exchange transactions	-	-	-
Salaries and wages debtors	-	281 813	281 813
Prepayments	593 180	(593 180)	-
Allowance for impairment	(1 653 459)	1 652 020	(1 440)
General debtors	3 175 788	(1 652 020)	1 523 769
Deposits paid	15 410	(15 410)	-
Non-Current Assets	-	-	-
Deposits paid	-	15 410	15 410
Current Liabilities	-	-	-
Payable from exchange transactions	-	-	-
Accrued annual bonus	1 019 659	(1 019 659)	-
Accrued expenses	3 998 287	(3 998 287)	-
Accrued leave pay	3 188 014	(3 188 014)	-
Makana Municipality - MIG Interest	3 292 815	(3 292 815)	-
Payments in advance - other	424 896	(424 896)	-
Trade payables	896 342	(896 342)	-
Unidentified deposits	2 300	(2 300)	-
Employee costs	74 068	(74 068)	-
Other payables	5 000	(5 000)	-
Employee benefits	-	-	-
Accrued annual bonus	-	1 195 120	1 195 120
Accrued leave pay	-	3 187 919	3 187 919
Performance bonus	-	1 022 155	1 022 155
Long service bonus	-	635 426	635 426
Other employee costs	-	10 535	10 535
Other payables	-	-	-
Payables and accruals	-	818 376	818 376
Unallocated deposits	-	2 300	2 300
Accrued interest - MIG	-	3 292 815	3 292 815
Advance payments	-	424 896	424 896
Trade and other payables	-	4 111 652	4 111 652
	13 261 184	(1 462 850)	11 798 334
Employee benefit obligation	6 427 302	(1 833 039)	4 594 263
Statement of Financial Performance	-	-	-
Revenue from exchange transactions	-	-	-
Income from agency services	46 390	(46 390)	-
Commission received	-	46 390	46 390
Interest received	10 703 010	(10 703 010)	-
Interest earned	-	10 703 010	10 703 010
Revenue from non-exchange transactions	-	-	-
Other revenue	-	-	-
Job evaluation fees	301 333	(301 333)	-
Bad debts recovered	-	301 333	301 333
Expenditure	-	-	-
Discounting on post employment medical benefit	6 056 344	(6 056 344)	-
Interest cost on post employment medical benefit	-	6 056 344	6 056 344
Repairs and maintenance	761 754	31 090	792 844
Contracted services	2 477 019	273 914	2 750 933

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
30. Prior period errors (continued)		
General expenses	48 692 313	(305 005) 48 387 308
Reclassified within general expenses	-	-
General other	-	(843 795) (843 795)
Environmental health	-	95 064 95 064
Computer expenses	-	294 413 294 413
Interview expenses	-	141 687 141 687
Rental expense	-	175 045 175 045
Study grants	-	137 586 137 586

31. Contingencies

Contingent liabilities incurred relating to interests in other entities

A possible contingent liability exists in respect of a claim of R200 000 made against the municipality Sunday's River Valley Contactors Association for monies on a housing project that was completed. The matter has been settled.

Claim amounting to R32 781 for damages arising out of a motor vehicle accident. This matter has now been settled.

There is an application to compel the Municipality to deal with sewerage spillages in the Makana area. The Municipality is cited as the second respondent. No reliable estimate is available at present.

There is an application for a supervisory order. The matter deals with failure to comply with the legislative responsibilities, obligations and duties as set on the Ndlambe by-laws and various environmental management acts, relating to properties not being fenced, no cutting of grass and no spraying of alien vegetation. No reliable estimate is available at present.

Contingent assets

The municipality has no contingent assets in the current and previous financial year.

32. Unauthorised expenditure

No unauthorised expenditure was incurred in the current and previous financial years.

33. Fruitless and wasteful expenditure

Opening balance as previously reported	210 617	204 602
Add: Expenditure identified - current	1 564	12 500
Less: Amounts recoverable - current	-	(1 440)
Less: Expenditure certified as irrecoverable / written off by Council	-	(5 045)
Closing balance	212 181	210 617

Current year fruitless and wasteful expenditure relates to accommodation not utilised, for which no refund could be obtained.

There were no criminal or disciplinary steps taken as a result of the fruitless and wasteful expenditure incurred.

34. Irregular expenditure

Opening balance as previously reported	1 766 386	5 045 665
Opening balance as restated	1 766 386	5 045 665
Add: Irregular Expenditure - current	997 659	1 718 002
Less: Expenditure certified as irrecoverable / written off by Council	(1 760 384)	(4 997 281)
Closing balance	1 003 661	1 766 386

Details of irregular expenditure

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

34. Irregular expenditure (continued)

After the council committee investigation, council adopted the council committee recommendation to write-off an amount of R1 760 384 (2021: R4 997 281) from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable. There were no criminal or disciplinary steps taken as a result of the irregular expenditure incurred.

An amount of R1 304 775 relates to bids/quotes awarded that did not comply with supply chain management regulations which have been submitted to Council for investigation.

Bids/quotes awarded that did not comply with supply chain management regulation

1 304 775 1 718 002

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
35. Commitments		
Authorised capital expenditure		
Capital expenditure		
• Approved and contracted for	845 001	10 171 698
This committed expenditure relates to capital assets and will be financed by retained surpluses and the Somerset East Industrial Park Grant.		
Total capital commitments		
Already contracted for but not provided for	845 001	10 171 698
Authorised operational expenditure		
Non-capital expenditure		
• Approved and contracted for	6 842 424	7 416 544
Total operational commitments		
Already contracted for but not provided for	6 842 424	7 416 544
Total commitments		
Total commitments		
Authorised capital expenditure	845 001	10 171 698
Authorised operational expenditure	6 842 424	7 416 544
	7 687 425	17 588 242

This committed expenditure relates to other: commitments and will be financed by conditional grants and, retained surpluses.

The Municipality has additional commitments with service providers which were awarded on a rate basis and budget availability. These additional commitments are related to services for vehicle maintenance, fuel cards and tracking services, short term insurance, advertising services, financial services support local Municipalities and travel agency services. The value of these commitments cannot be quantified as the commitment is only raised upon the usage of these services.

Operating leases - as lessor (income)

Minimum lease payments due		
- within one year	64 594	64 474
- in second to fifth year inclusive	203	314
- later than five years	-	1
	64 797	64 789

Certain of the municipality's properties are held to generate rental income. No contingent rentals have been received by the Municipality.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

2022

2021

36. Risk management

Liquidity risk

The municipality's risk to liquidity is as 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.

Stringent cash management procures are in place. These include cash flow forecasting.

A sensitivity analysis has not been performed and included, as the municipality is not exposed to foreign exchange risk. The municipality does not enter into any foreign exchange transactions and since the municipality effects payments on presentation of invoices, no interest rate changes are applicable. It would thus be misleading to provide a sensitivity analysis.

The following table details the municipality's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the entity can be required to pay. The table includes both estimated interest and principal cash flows.

At 30 June 2022	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
• Payable from exchange transactions	14 237 224	-	-	-

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
• Payable from exchange transactions	14 701 194	-	-	-

Interest rate risk

The current account and the call account expose the municipality to an interest rate risk on cash flow. Deposits attract interest at a rate that varies according to the prime banking rate.

The municipality manages this interest rate risk by ensuring that all surplus funds are invested in fixed rate instruments and by maintaining the minimum possible balance in the current account.

The interest rates on the fixed deposits are fixed, but varies from investment to investment.

Should the prime rate vary by 1% in either direction, the effect on the cash balance would be R1.4million (2021: R1.9 million) in either direction.

Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and debtors. The Municipality only deposits cash with banks which have an equity above R10 billion with a good credit rating.

The most significant concentration of credit risk is the outstanding receivables. Management believes that the allowance for impairment adequately addresses the credit risk involved.

Credit risk consists mainly of cash deposits, cash equivalents, and receivables from exchange and non-exchange transactions.

The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty.

Receivables from exchange transaction comprises of the interest accrued for the current financial year and debtors in respect of salaries and wages.

Receivables from non-exchange transactions largely comprises of pension contributions made by the Municipality on behalf of other organs of state, for which SBDM is fully re-imbursed.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
37. Related parties		
Relationships		
Wholly-owned municipal entity		Cacadu District Development Agency (CDDA)
Members of key management (Refer note 21, 22 and 37) for details of key management)		Speaker, Mayoral Committee Members, Councillors, Municipal Manager & Directors
The municipality has provided the CDDA with an unconditional grant of R5 200 000 (2021: R5 000 000) to fund its operations. These transactions were eliminated in the consolidated financial statements, as well as conditional grant related transactions.		
38. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	(564 222)	(550 212)
Current year subscription / fee	564 222	579 170
Amount paid in advance for the following year	(702 533)	(593 180)
	(702 533)	(564 222)
Audit fees		
Current year audit fees	3 342 597	3 458 939
Amount paid - current year	(3 342 597)	(3 458 939)
	-	-
PAYE, UIF and SDL		
Opening balance	288 430	864 418
Current year payroll deductions	10 870 033	9 815 118
Amount paid	(10 870 033)	(10 391 106)
	288 430	288 430
Pension and Medical Aid Deductions		
Current year payroll deductions and Council Contributions	21 187 772	19 550 233
Amount paid - current year	(21 187 772)	(19 550 233)
	-	-

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
-----------------	------	------

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

Disclosures of awards to person(s) of in the service of the state

Awards to close family members of persons in the service of the state 2022

Supplier Name	Name	Relation to Supplier	Organ of the State	Amount
CHM Vusani Computer Solution CC	D Monks	Child - P Monks	Clr. Nelson Mandela Bay Municipality	104 687
Malwande Construction t/a Miya Electrical	E Nstukazi	Spouse - T Ntsukazi	SADF	7 367
				112 054

Awards to close family members of persons in the service of the state 2021

Supplier Name	Name	Relation to Supplier	Organ of the State	Total
CHM Vusani Computer Solution CC	D Monks	Child of P Monks	Clr. Nelson Mandela Bay Municipality	80 362
7 Icons (Pty) Ltd	N Mnyande	Spouse - SP Mnyande	Department of Justice	58 500
Quest Staffing Solution	K Vittee	Sister-in-law	IEC	3 450
Gilgal Development Consulting Engineering & Project Managers	Z Nyila	Spouse - MJ Nyila	Nelson Mandela Bay Municipality	9 728
Malwande Construction t/a Miya Electrical	E Nstukazi	Spouse - T Ntsukazi	SADF	4 272
Fortees Administration	K Vittee	Sister-in-law	IEC	104 798
				261 110

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand 2022 2021

39. Financial instruments disclosure

Categories of financial instruments

2022

Financial assets

	Note	At amortised cost	Total
Cash and cash equivalents	8	87 988 489	87 988 489
Short term investments	7	141 000 000	141 000 000
Receivables from exchange transactions	3	2 964 084	2 964 084
Receivables from non-exchange transactions	4	1 284 900	1 284 900
		233 237 473	233 237 473

Financial liabilities

	Note	At amortised cost	Total
Payables from exchange transactions	14	7 688 320	7 688 320

2021

Financial assets

	Note	At amortised cost	Total
Cash and cash equivalents	8	135 658 831	135 658 831
Short term investments	7	100 000 000	100 000 000
Receivables from exchange transactions	3	541 261	541 261
Receivables from non-exchange transactions	4	1 538 009	1 538 009
		237 738 101	237 738 101

Financial liabilities

	Note	At amortised cost	Total
Payables from exchange transactions	14	8 650 039	8 650 039

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
-----------------	------	------

40. 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 council and includes a note to the group annual financial statements.

Reasons

Emergency	9 200	21 500
Goods or services are produced or available from a single supplier	1 047 683	456 239
In any other exceptional case where it is impractical to follow supply chain processes	2 076 900	1 881 682
	3 133 783	2 359 421

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
-----------------	------	------

41. Budget differences

Material differences between budget and actual amounts

Variances in the budgeted amounts and the actual amounts are considered material when the actual amount is more than 10% than the budgeted amount for both revenue and expenditure as well as where revenue exceeds 5% of the budgeted amount.

The material variances are as follows:

Investment revenue

The variance of 21% is attributable to fluctuations in the prime-lending rate which affects the interest rates. The prime-lending rate increased by 0.25% in November 2021, January 2022 and March 2022, respectively and again by 0.50% in May 2022.

Other own revenue

Based on the principles of budgeting, this area is utilised to fund the budget of the municipality and therefore the budgeted amount is high. The amount reflected in the financial statements is however actual other revenue received during the year. The variance therefore relates to the portion utilised to balance the revenue budgeted from the accumulated surplus.

Employee costs

- Remuneration of employees

The variance of 12% is attributable to vacancies. This resulted in savings in employee related costs.

- Remuneration of councillors

The variance of 18% is attributable to the new Council which was elected into office during the 2021/22 financial year as well as the position of Executive Mayor being vacant for two months. In addition, there were no increases gazetted during the year, in terms of the Remuneration of Public Office Bearers Act (No 20 of 1998). In addition, the CEO of the municipal entity resigned during the current year.

Depreciation and asset impairment

The total variance of 33% is mainly attributable to a reduction in the residual values of investment properties, which were only finalized on 31 August 2022.

Transfers and grants

The total variance of 38% was mainly attributable to underspending of the fire subsidy and fire equipment provided to Local Municipalities. The factors contributing to the underspending was due to bids being cancelled twice and National Treasury advising municipalities to withhold bid advertisements because of the Constitutional Court judgement of 16 February 2022 that deemed the Preferential Procurement Regulation 2017 as invalid.

Other expenditure

The total variance of 47% is mainly due to under expenditure on own funded projects. Other factors that contributed to the variances are as follows:

- National Treasury advising municipalities to withhold bid advertisements because of the Constitutional Court judgement of 16 February 2022 that deemed the Preferential Procurement Regulation 2017 as invalid.
- No expenditure incurred on Covid-19 preventative measures.
- Repairs and maintenance for renovations for the new tenants on the ground floor did not take place.
- Tourism and SMME support reduced

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
-----------------	------	------

41. Budget differences (continued)

- Three projects of the municipal entity was not implemented as a result of staff shortages.

Capital expenditure

The variance of 93% is mainly attributed to underspending on ICT capital projects due to lack of sufficient resources in the ICT section.

- National Treasury advising municipalities to withhold bid advertisements because of the Constitutional Court judgement of 16 February 2022 that deemed the Preferential Procurement Regulation 2017 as invalid

- The project related to the relocation of SBDM to new offices did not take place as intended.

Material difference between original and final budget

Revenue - Transfers recognised

An adjustment of R4.3m was required because of conditional grant rollover applications from 2021 to 2022

Other own revenue

Adjustments relate to funds were committed for procurement of response vehicles for local municipalities from Fire Contributions and SLAs entered into.

Expenditure - Transfers and grants

Adjustments relate to Fire subsidy and conditional grant rollover applications for EPWP, RAMMS and FMG.

Other expenditure

Adjustments relate to funds committed on Planning and Economic Development projects, some of which relate to support to local municipalities.

Capital expenditure

Adjustments were required due to funds that were committed and bid processes that commenced in 2021.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

2022

2021

42. Segment information

General information

Identification of segments

The municipality is organised and reports to management on the basis of four major functional areas: Municipal Manager, Finance and Corporate Services, Planning and Development and Infrastructure and Development. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

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

Aggregated segments

The municipality operates throughout the Eastern Province in seven cities. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout the Eastern Province were sufficiently similar to warrant aggregation.

Types of goods and/or services by segment

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

Reportable segment

Segment 1
Segment 2
Segment 3
Segment 4
Segment 5

Goods and/or services

Municipal Manager
Finance and Corporate Services
Planning and Development
Infrastructure and Development
Economic Development - Municipal Entity

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

42. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2022

	Municipal Manager	Finance and Corporate Services	Planning and Development	Infrastructure and Development	Economic Development - Municipal Entity	Total
Revenue from exchange transactions						
Rental of facilities and equipment	-	60 264	-	-	-	60 264
Income from agency services	-	54 161	-	-	-	54 161
Interest received - investment	-	10 874 988	-	-	590 644	11 465 632
Revenue from non-exchange transactions						
Actuarial gain on post employment benefits	3 880 692	-	-	-	-	3 880 692
Government grants and subsidies	31 062 000	71 056 264	-	10 830 808	15 529 955	128 479 027
Other revenue	57 214	256 964	-	-	250 000	564 178
Job evaluation fees	-	1 144 039	-	-	-	1 144 039
Total segment revenue	34 999 906	83 446 680	-	10 830 808	16 370 599	145 647 993
Entity's revenue						145 647 993

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

	Municipal Manager	Finance and Corporate Services	Planning and Development	Infrastructure and Development	Economic Development - Municipal Entity	Total
42. Segment information (continued)						
Expenditure						
Employee related costs	13 385 295	15 182 736	4 878 032	17 941 039	3 850 783	55 237 885
Remuneration of councillors/board members	6 716 150	-	-	-	244 094	6 960 244
Depreciation and amortisation	309 986	1 054 746	-	887 192	45 749	2 297 673
Impairment of assets	973 198	-	-	-	-	973 198
Repairs and maintenance	-	854 686	-	-	-	854 686
Other grants and subsidies paid	-	-	5 200 000	12 864 580	-	18 064 580
Contracted services	9 930	2 216 299	-	-	-	2 226 229
Conditional grant expenditure	-	-	-	4 486 790	-	4 486 790
General expenses	7 039 666	10 986 062	6 337 403	4 321 823	10 102 849	38 787 803
Loss on disposal of property, plant and equipment	7 596	-	-	-	-	7 596
Discounting of post employment medical benefit	5 931 925	-	-	-	-	5 931 925
Increase in provisions	-	15 218	-	-	-	15 218
Total segment expenditure	34 373 746	30 309 747	16 415 435	40 501 424	14 243 475	135 843 827
Total segmental surplus/(deficit)						9 804 166

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

2022

2021

43. Accounting by principals and agents

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

Details of the arrangement is as follows:

The municipality has entered into a Principal-agent relationship with its local municipalities due to the requirements of the National Health Amendments Act, 2013 (Act No.12 of 2013) for the Environmental Health Services.

The entity is the principal and all local municipalities under it are the agent.

Local municipalities are given a subsidy to execute the service on behalf of the District Municipality. Revenue that is collected by the Local Municipalities is not transferred to the District Municipality and the assets that are bought by the subsidy are owned by the Local Municipality.

Entity as principal

Resources (including assets and liabilities) of the entity under the custodianship of the agent

The resources have been recognised by the agent in its financial statements.

Fee paid or received

Due to the nature of the service level agreement with Local Municipalities, the District Municipality does not pay a fee for the service nor does it receive money for the services that are rendered on its behalf by the Local Municipalities.

Revenue that is collected by the Local Municipalities is not transferred to the District Municipality and assets that are bought by the subsidy are owned by the Local Municipality.

All payments to the Local Municipalities are treated as subsidies for the municipalities, refer to **Note 24** for detailed amounts issued.

Resource and/or cost implications for the entity if the principal-agent arrangement is terminated

The District Municipality incurs no costs if the contractual agreement is terminated with the Local Municipalities that it has a Principal - agent relationship with.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

2022 2021

45. Conditional grants and receipts

	Unspent Balance 30 June 2021	Contributions / Adjustments Rand	Interest Allocated Rand	Value Added Taxation Rand	Current Year Receipts Rand	Transfer to Revenue Rand
Somerset East Industrial Park Grant	12 137 847			(1 807 892)		(10 329 955)
Finance Management Grant (FMG)	169 533	(169 533)	-	(104 348)	1 000 000	(895 652)
Rural Access Roads (RRAMS)	811 680	-	-	(404 436)	2 289 000	(2 696 244)
Expanded Public Works Programme (EPWP)	63 858	-	-	(4 293)	1 075 000	(1 134 565)
	13 182 918	(169 533)	-	(2 320 969)	4 364 000	(15 056 416)

The rollover amount of R169 533 applied for under the Finance Management Grant was not approved for the 2021/22 financial year. This has been reflected under adjustments.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand

2022 2021

46. Disclosure of Grants and Subsidies in terms of Section 123 of MFMA 56 of 2003

Name of Grant	Opening Balance	2021/2022			2021/2022				
		Sep	Dec	Mar	Quarterly Receipts	Quarterly Expenditure	Jun		
Somerset East Industrial Park Grant	12 137 847								
Finance Management Grant	-	1 000 000	-	-					
Rural Access Roads (RRAMS)	811 681	1 602 000	-	687 000					
Expanded Public Works Programme (EPWP)	63 858	269 000	483 000	323 000					
	13 013 386	2 871 000	483 000	1 010 000	1 194 914	8 066 088	15 026 096	3 193 040	

All grants comply with DoRA and no non-compliance was recorded for the year.

SARAH BAARTMAN DISTRICT MUNICIPALITY

Group Annual Financial Statements for the year ended 30 June 2022

Notes to the Group Annual Financial Statements

Figures in Rand	2022	2021
-----------------	------	------

47. Events after the reporting date

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