Xhariep District Municipality
(Registration number DC16)
Annual Financial Statements
for the year ended 30 June 2022

General Information

Legal form of entity	South African Category C Municipality (District Municipality) as defined by the Municipal Structures Act. (Act no 117 of 1998)
Nature of business and principal activities	Xhariep District Municipality is a district municipality performing the function as set out in the constitution(Act no 105 of 1996). Xhariep District Municipality includes the municipal areas of Mohokare Local Municipality, Letsemeng Local Municipality and Kopanong Local Municipality.
Mayoral committee	
Executive Mayor	Cllr IN Mehlomakulu
Speaker	Cllr AM Shasha
MMC: Corporate Services	Cllr NJ Garekoe
MMC: Planning and Social Development	Cllr TD Mochechepa
MMC: Finance	Cllr MA Lebaka
Councillors	Cllr RW Van Wyk Cllr AJ Janse Van Rensburg Cllr IS Riddle Cllr MV Malgas Cllrs TI Phatsoane Cllr NA Adoons Cllr M Lekoenea Cllr MG Mokheseng Cllr MA Molai Cllr MM Potgieter Cllr AN November
Grading of local authority	3
Municipal Manager	LY Moletsane
Chief Finance Officer (CFO)	PV Litabe
Registered office	20 Louw Street Trompsburg 9913
Business address	20 Louw Street Trompsburg 9913
Postal address	P.O Box 136 Trompsburg 9913
Bankers	ABSA Bank Limited
Auditors	Auditor-General of South Africa

Index

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

Abbreviations used:

COIDA	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
EPWP	Expanded Public Works Program
FMG	Financial Management Grant
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
RRAMS	Rural Roads Asset Management Systems
MMC	Members of Mayoral Committee
VAT	Value Added Tax

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

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

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

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the on 30 November 2022 and were signed on its behalf by:

PV Litabe
Acting Municipal Manager

Accounting Officer's Report

The accounting officer submits her report for the year ended 30 June 2022.

1. Review of activities

Main business and operations

The municipality is engaged in providing services and operates principally in South Africa.

The operating results and state of affairs of the municipality are fully set out in the attached Annual Financial Statements and do not in our opinion require any further comments.

2. Going concern

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated deficit of (10 896 334) and that the municipality's total liabilities exceed its assets by (10 896 334).

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

3. Subsequent events

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

4. Accounting policies

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

5.

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

Name	Nationality
LY Moletsane	South Africa

6. Bankers

The operating account of the municipality remained held with ABSA.

7. Auditors

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

The annual financial statements set out on page 4, which have been prepared on the going concern basis, were approved by the on 30 November 2022 and were signed on its behalf by:

PV Litabe
Acting Municipal Manager

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
Assets			
Current Assets			
Inventories	5	-	22 438
VAT receivable	4	2 682 789	3 247 447
Trade and Other receivables	3	3 435 218	4 443 845
Cash and cash equivalents	2	226 059	7 329 517
		6 344 066	**15 043 247**
Non-Current Assets			
Property, plant and equipment	6	9 978 476	10 399 189
Intangible assets	7	408 195	816 390
		10 386 671	**11 215 579**
Total Assets		**16 730 737**	**26 258 826**
Liabilities			
Current Liabilities			
Finance lease obligation	8	-	104 910
Payables from exchange transactions	9	22 872 175	19 933 400
Payables from non-exchange transactions	10	835 186	-
Employee benefit obligation	11	218 226	371 984
Unspent conditional grants and receipts	12	1 224 675	-
		25 150 262	**20 410 294**
Non-Current Liabilities			
Employee benefit obligation	11	2 476 809	2 284 939
Total Liabilities		**27 627 071**	**22 695 233**
Net Assets		**(10 896 334)**	**3 563 593**
Accumulated surplus/(deficit)		(10 896 334)	3 563 593
Total Net Assets		**(10 896 334)**	**3 563 593**

* See Note 42

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
REVENUE			
Revenue from exchange transactions			
Rental of facilities	14	578 571	564 816
Interest received (debtors)	15	650 750	304 986
Recoveries Income	16	839 920	90 536
Other income	18	91 302	81 410
Interest received (bank/ investments)	19	492 502	651 803
Gain on disposal of assets and liabilities	17	60 000	-
Actuarial gains	11	291 760	-
Total revenue from exchange transactions		**3 004 805**	**1 693 551**
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	20	50 957 326	61 145 000
Financial Assistance in kind	21	1 639 347	-
LG SETA Income		31 591	57 976
Total revenue from non-exchange transactions		**52 628 264**	**61 202 976**
Total revenue	13	**55 633 069**	**62 896 527**
EXPENDITURE			
Employee related costs	22	(45 119 524)	(46 711 005)
Remuneration of councillors	23	(4 302 942)	(4 746 372)
Depreciation and amortisation	24	(1 831 170)	(1 959 745)
Impairment of assets	25	(9 465)	-
Finance costs	26	(347 319)	(257 781)
Debt Impairment	28	(5 406 407)	(564 179)
Contracted services	30	(1 939 037)	(3 563 772)
Actuarial losses	11	-	(246 681)
General Expenses	29	(11 137 134)	(11 317 619)
Total expenditure		**(70 092 998)**	**(69 367 154)**
Deficit for the year		**(14 459 929)**	**(6 470 627)**

* See Note 42

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	9 149 653	9 149 653
Adjustments		
Prior year adjustments 42	884 567	884 567
Balance at 01 July 2020 as restated*	**10 034 220**	**10 034 220**
Changes in net assets		
Deficit for the year	(6 470 627)	(6 470 627)
Total changes	(6 470 627)	(6 470 627)
Opening balance as previously reported	2 939 880	2 939 880
Adjustments		
Prior year adjustments 42	623 715	623 715
Restated* Balance at 01 July 2021 as restated*	**3 563 595**	**3 563 595**
Changes in net assets		
Deficit for the year	(14 459 929)	(14 459 929)
Total changes	(14 459 929)	(14 459 929)
Balance at 30 June 2022	**(10 896 334)**	**(10 896 334)**

Note(s)

* See Note 42

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		181 144	20 042
Grants and subsidies		52 182 000	61 145 000
Interest income		492 502	651 803
LG SETA receipts		31 591	57 976
		52 887 237	61 874 821
Payments			
Employee costs		(49 439 043)	(51 974 944)
Suppliers		(9 388 703)	(12 235 647)
Finance costs		(106 316)	(141 017)
		(58 934 062)	(64 351 608)
Net cash flows from operating activities	31	**(6 046 825)**	**(2 476 787)**
Cash flows from investing activities			
Purchase of property, plant and equipment	6	(1 011 724)	(407 916)
Purchase of other intangible assets	7	-	(203 478)
Net cash flows from investing activities		**(1 011 724)**	**(611 394)**
Cash flows from financing activities			
Finance lease payments		(44 909)	(258 913)
Net increase/(decrease) in cash and cash equivalents		**(7 103 458)**	**(3 347 094)**
Cash and cash equivalents at the beginning of the year		7 329 517	10 676 611
Cash and cash equivalents at the end of the year	2	**226 059**	**7 329 517**

* See Note 42

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Rental of facilities and equipment	939 183	(290 000)	**649 183**	578 571	**(70 612)**	1
Interest received (trading)	-	391 915	**391 915**	650 750	**258 835**	2
Recoveries	-	-	-	839 920	**839 920**	3
Other income	80 000	7 500	**87 500**	91 302	**3 802**	4
Interest received - investment	620 000	-	**620 000**	492 502	**(127 498)**	5
Gains on disposal of assets	-	-	-	60 000	**60 000**	
Actuarial gains/losses	-	-	-	291 760	**291 760**	15
Total revenue from exchange transactions	**1 639 183**	**109 415**	**1 748 598**	**3 004 805**	**1 256 207**	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	61 734 000	(296 000)	**61 438 000**	50 957 326	**(10 480 674)**	6
Financial Assistance	-	-	-	1 639 347	**1 639 347**	
LG SETA Income	98 000	-	**98 000**	31 591	**(66 409)**	7
Total revenue from non-exchange transactions	**61 832 000**	**(296 000)**	**61 536 000**	**52 628 264**	**(8 907 736)**	
Total revenue	**63 471 183**	**(186 585)**	**63 284 598**	**55 633 069**	**(7 651 529)**	
Expenditure						
Employee Related Costs	(47 496 520)	1 955 923	**(45 540 597)**	(45 119 524)	**421 073**	8
Remuneration of councillors	(4 956 415)	402 592	**(4 553 823)**	(4 302 942)	**250 881**	9
Depreciation and amortisation	(1 000 000)	-	**(1 000 000)**	(1 831 170)	**(831 170)**	10
Impairment of assets	-	-	-	(9 465)	**(9 465)**	
Finance costs	(80 000)	45 000	**(35 000)**	(347 319)	**(312 319)**	11
Debt Impairment	(491 000)	(391 915)	**(882 915)**	(5 406 407)	**(4 523 492)**	12
Contracted Services	(3 816 000)	(16 250)	**(3 832 250)**	(1 939 037)	**1 893 213**	13
General Expenses	(5 145 250)	(1 324 683)	**(6 469 933)**	(11 137 134)	**(4 667 201)**	14
Total expenditure	**(62 985 185)**	**670 667**	**(62 314 518)**	**(70 092 998)**	**(7 778 480)**	
Deficit before taxation	**485 998**	**484 082**	**970 080**	**(14 459 929)**	**(15 430 009)**	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**485 998**	**484 082**	**970 080**	**(14 459 929)**	**(15 430 009)**	

Xhariep District Municipality

(Registration number DC16)
Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	38 986	30 000	**68 986**	-	**(68 986)**	16
VAT receivable	2 925 045	-	**2 925 045**	2 682 789	**(242 256)**	17
Receivable from exchange transactions	1 624 405	-	**1 624 405**	3 435 218	**1 810 813**	18
Cash and cash equivalents	10 796 248	-	**10 796 248**	226 059	**(10 570 189)**	19
	15 384 684	**30 000**	**15 414 684**	**6 344 066**	**(9 070 618)**	
Non-Current Assets						
Property, plant and equipment	10 338 311	484 000	**10 822 311**	9 978 476	**(843 835)**	20
Intangible assets	1 021 107	-	**1 021 107**	408 195	**(612 912)**	21
	11 359 418	**484 000**	**11 843 418**	**10 386 671**	**(1 456 747)**	
Total Assets	**26 744 102**	**514 000**	**27 258 102**	**16 730 737**	**(10 527 365)**	
Liabilities						
Current Liabilities						
Payables from exchange transactions	14 813 696	(76 235 881)	**(61 422 185)**	22 872 173	**84 294 358**	22
Taxes and transfers payable (non-exchange)	-	-	-	835 186	**835 186**	
Employee benefit obligation	157 111	(157 111)	-	218 226	**218 226**	24
Unspent conditional grants and receipts	-	-	-	1 224 675	**1 224 675**	
	14 970 807	**(76 392 992)**	**(61 422 185)**	**25 150 260**	**86 572 445**	
Non-Current Liabilities						
Employee benefit obligation	1 919 418	(1 919 418)	-	2 476 809	**2 476 809**	24
Total Liabilities	**16 890 225**	**(78 312 410)**	**(61 422 185)**	**27 627 069**	**89 049 254**	
Net Assets	**9 853 877**	**78 826 410**	**88 680 287**	**(10 896 332)**	**(99 576 619)**	
Net Assets						
Reserves						
Accumulated surplus/(deficit)	8 300 371	8 298 455	**16 598 826**	(10 896 332)	**(27 495 158)**	25

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Grants	61 832 000	-	**61 832 000**	52 182 000	**(9 650 000)**	26
Other receipts	1 639 183	-	**1 639 183**	705 237	**(933 946)**	27
	63 471 183	**-**	**63 471 183**	**52 887 237**	**(10 583 946)**	
Payments						
Employee costs	(52 034 810)	-	**(52 034 810)**	(49 439 043)	**2 595 767**	28
Suppliers	(9 307 375)	-	**(9 307 375)**	(9 388 701)	**(81 326)**	29
Finance costs	(80 000)	-	**(80 000)**	(106 316)	**(26 316)**	30
	(61 422 185)	**-**	**(61 422 185)**	**(58 934 060)**	**2 488 125**	
Net cash flows from operating activities	**2 048 998**	**-**	**2 048 998**	**(6 046 823)**	**(8 095 821)**	
Cash flows from investing activities						
Purchase of property, plant and equipment	-	-	**-**	(1 011 724)	**(1 011 724)**	31
Cash flows from financing activities						
Finance lease payments	-	-	**-**	(44 911)	**(44 911)**	
Net increase/(decrease) in cash and cash equivalents	2 048 998	-	**2 048 998**	(7 103 458)	**(9 152 456)**	
Cash and cash equivalents at the beginning of the year	-	-	**-**	7 329 517	**7 329 517**	
Cash and cash equivalents at the end of the year	**2 048 998**	**-**	**2 048 998**	**226 059**	**(1 822 939)**	

The accounting policies on pages 12 to 32 and the notes on pages 33 to 67 form an integral part of the annual financial statements.

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

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

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

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

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

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

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

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Provisions

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

Effective interest rate

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

Useful lives and residual values

The municipality's management determine the useful lives and related depreciation changes for property, plant and equipment . This estimate is based on industry norms. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

Long Service Award

The present value of the long service bonus obligation depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) include the discount rate, future inflation, salary inflation, net discount rate and assumed retirement age.

Any changes in these assumption will impact on the carrying amount of long service bonus obligations

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

Leave and Bonus Accrual

The municipality used the leave and bonus paid date to estimate the provisions respectively

1.5 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

1.5 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Buildings	Straight-line	25-30 years
Security system	Straight-line	5-10 years
Plant and machinery	Straight-line	3-15 years
Furniture and fixtures	Straight-line	3-15 years
Motor vehicles	Straight-line	4-7 years
Office equipment	Straight-line	5-10 years
IT equipment	Straight-line	3-10 years
Finance leased assets	Straight-line	The shorter of asset's useful life or the lease term

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

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

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

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

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

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

Accounting Policies

1.5 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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 6).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 6).

No item of property, plant and equipment are pledged as security for liabilities.

1.6 Intangible assets

Intangible assets are non current asset that are held for use in the production or supply of goods or services, rental to other or for administrative purposes and are expected to be used during more than one period.

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

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

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 7).

Accounting Policies

1.7 Financial instruments

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

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

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

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

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

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

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

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

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

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

A financial asset is:

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

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

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

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

Accounting Policies

1.7 Financial instruments (continued)

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

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

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

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

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

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

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

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:
- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:
- the entity designates at fair value at initial recognition; or
- are held for trading.

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:
- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

Accounting Policies

1.7 Financial instruments (continued)

Classification

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

Class	Category
Cash and cash equivalent	Financial asset measured at amortised cost
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost

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

Class	Category
Trade and other payables from exchange transaction	Financial liability measured at amortised cost
Taxes and transfers payable (non-exchange) - Unspent Grant liability	Financial liability measured at amortised cost
Finance lease liability	Financial liability measured at amortised cost

The entity classifies financial assets and financial liabilities into the following categories:

- Held to maturity investments.
- Loans and receivables.
- Available for sale financial assets.
- Financial liabilities measured at amortised.

Classification depends on the purpose for which the financial instrument 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 deficit, which shall not be classified out of the fair value through surplus or deficit category:

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

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

Financial instruments are measured initially at fair value except for equity investment for which a fair value is not determinable, which are measured at cost and are classified as available-for sale financial assets.

For financial instruments which are at fair value through surplus or deficit, transaction cost are included in the initial measurement of the instrument.

Subsequent measurement of financial assets and financial liabilities

Loans and receivable are subsequently measured at amortised cost, using the effective interest method, less accumulated impairment losses.

Held-to-maturity investment are subsequently measured at amortised cost. Using the effective interest method, less accumulated impairment losses.

Available-for-sale financial assets are subsequently measured at fair value. This equity investment for which a fair value is not determinable, which is measured at cost less accumulated impairment losses.

1.7 Financial instruments (continued)

Gains and losses arising from changes in fair value are recognised in equity until the asset is disposed of or determined to be impaired. Interest on available-for-sale financial assets is calculated using the effective interest method is recognised as surplus or deficit as part of other income. Dividends or similar distribution received on available-for-sale equity instruments are recognised in surplus or deficit as part of other income when the municipality's right to receive payment is established.

Changes in fair value of available-for sale financial asset denominated in foreign currency are analysed between translation difference resulting from changes in amortised cost and other changes in carrying amount. Translation difference on monetary items are recognised in surplus or deficit while translation difference on non-monetary items are recognised in equity.

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

Fair value measurement considerations

The fair value of a qouted investment is based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These includes the use of recent arm's length transaction, reference to other instruments that are substantially the same, discounted cash flow analysis and option pricing models making maximum use of market inputs and relying as little as possible on municipality-specific inputs.

Gains and losses

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

A gain or loss on a financial asset or financial liability classified as a fair value through surplus or deficit is recognised in surplus or deficit.

A gain or loss on an available-for-sale financial asset is recognised directly in net assets, through the statement of changes in net asset, until the financial asset is derecognised, at which time the cumulative gain or loss previously recognised in net asset is recognised in surplus or deficit: and

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 liabilities is derecognised or impaired, and through the amortisation process

Impairment of financial assets

At each of the reporting period the municipality assess all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial asset has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payment are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged declined in the fair value of the security below its cost is considered an indicator or impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss measured as difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised as surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised as surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Accounting Policies

1.7 Financial instruments (continued)

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

Receivable from exchange transactions

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised as surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Payable from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand (including petty cash) and cash with banks (including call deposits).Cash equivalents are short-term highly liquid investments, readily convertible to a known amount of cash ,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. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loan and receivable.

Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

Investments

Investments, which include listed government bonds, unlisted municipal bonds, fixed deposits and short-term deposits invested in registered commercial banks, are categorised as either held-to-maturity where the criteria for that categorisation are met, or as loans and receivables, and are measured at amortised cost. Where investments have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified. Impairments are calculated as being the difference between the carrying amount and the present value of the expected future cash flows flowing from the instrument. On disposal of an investment, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

Held to maturity

These financial assets are initially measured at fair value plus direct transaction costs.

At subsequent reporting dates these are measured at amortised cost using the effective interest rate method, less any impairment loss recognised to reflect irrecoverable amounts. An impairment loss is recognised in surplus or deficit when there is objective evidence that the asset is impaired, and is measured as the difference between the investment's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition. Impairment losses are reversed in subsequent periods when an increase in the investment's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the investment at the date the impairment is reversed shall not exceed what the amortised cost would have been had the impairment not been recognised.

Financial assets that the municipality has the positive intention and ability to hold to maturity are classified as held to maturity.

Financial liabilities

Financial liabilities are classified according to the substance of contractual agreements entered into.

Accounting Policies

1.7 Financial instruments (continued)

Trade and other payables are stated at their nominal value. Equity instruments are recorded at the amount received, net of direct issue costs.

Financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method. Financial liabilities consist of trade payables and borrowings. They are categorized as financial liabilities held at amortised cost, and are subsequently measured at amortised cost which is the initial carrying amount, less repayments, plus interest.

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

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

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

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

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

1.8 Leases

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

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

Finance leases - lessor

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

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

Finance leases - lessee

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

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

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

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

1.8 Leases (continued)

Operating leases - lessor

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

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

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

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

Income for leases is disclosed under revenue in statement of financial performance. Income for leases is disclosed under revenue in statement of financial performance.Operating lease payment are recognised as an expenses on a straignt-line basis over the lease term. The difference between the amount recognised as an expense and the contractual payment are recognised as either a prepaid expense asset or liability depending on whether the payment exceeds the expense or vice versa.

Operating leases - lessee

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

1.9 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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

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

1.10 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

1.10 Cash and cash equivalents (continued)

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents comprise bank balances, cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are available on demand.

Some equity investments are included in cash equivalents when they are, in substance, cash equivalents.

Bank overdrafts which are repayable on demand forms an integral part of the entity's cash management activities, and as such are included as a component of cash and cash equivalents.

1.11 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

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

Useful life is either:

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

Designation

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

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

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

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

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

Accounting Policies

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

Identification

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

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

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

Value in use

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

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Accounting Policies

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

Redesignation

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

1.12 Employee benefits

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

Accounting Policies

1.12 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

The municipality contribution to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in surplus or deficit in the period in which the service is rendered by the relevant employees unless another standard requires or permits the inclusion of contribution in the cost of an asset. Prepaid contribution are recognised as an asset to the extent that a cash refund or a reduction in future payment is available. Payments to defined contribution retirement benefit plan ae charged as an expense as they fall due

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

For defined benefit plans the cost of providing the benefits is determined using the projected credit method

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees.

Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan

1.13 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

1.13 Provisions and contingencies (continued)

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

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

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

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

Provisions are not recognised for future operating deficit.

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

A constructive obligation to restructure arises only when an entity:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 32.

1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.15 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.

Accounting Policies

1.15 Revenue from exchange transactions (continued)

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).

Sale of goods

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

Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

Interest, royalties and dividends

Revenue arising from the use by others of entity assets yielding interest, royalties and dividends or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

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

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

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

1.16 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the municipality receives value from another municipality without directly giving approximately equal value in exchange.

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.

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

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

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

Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,

- the amount of the revenue can be measured reliably, and

- to the extent that there has been compliance with any restrictions associated with the grant.

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any criteria, conditions or obligation embodied in the agreement. To the extent that the criteria, conditions or obligation have not met, a liability is recognised

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

Other grants and donations

Accounting Policies

1.16 Revenue from non-exchange transactions (continued)

Other grants and donations are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- the amount of the revenue can be measured reliably; and
- to the extent that there has been compliance with any restrictions associated with the grant.

If goods in-kind are received without conditions attached, revenue is recognised immediately. If conditions are attached, a liability is recognised, which is reduced and revenue recognised as the conditions are satisfied.

1.17 Investment income

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

1.18 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.

1.19 Comparative figures

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

1.20 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. Detailed disclosure were in the notes to the financial statement as required by the MFMA.

1.21 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 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. Detailed disclosure were in the notes to the financial statement as required by the MFMA.Additional text.

1.22 Irregular expenditure

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

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

Accounting Policies

1.22 Irregular expenditure (continued)

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

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

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

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic municipality'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. Detailed disclosure were made in the notes to the financial statement as required by the MFMA.

1.23 Segment information

A segment is an activity of an entity:
- that generates economic benefits or service potential (including economic benefits or service potential relating to transactions between activities of the same entity);
- whose results are regularly reviewed by management to make decisions about resources to be allocated to that activity and in assessing its performance; and
- for which separate financial information is available.

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

1.24 Budget information

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

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

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

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

1.25 Related parties

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

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

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

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

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

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

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

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

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

1.26 Events after reporting date

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

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

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

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

1.27 Use of Estimates

The preparation of annual financial statement in conformity with Standards of GRAP required the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality the municipality's accounting policies. The areas involved a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statement are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and action they may undertake in the future, actual result ultimately may differ from those estimates.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

2. Cash and cash equivalents

Cash and cash equivalents consist of:

	2022	2021
Cash on hand	44	84
Bank balances	116 689	1 105 957
Short-term deposits	109 326	6 223 476
	226 059	**7 329 517**

Cash and cash equivalents pledged as collateral

None of the cash has been pledged as security.

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 - Cheque Account - 4053628182	116 689	1 105 956	938 095	116 689	1 105 956	938 095
ABSA - Call Account - 9309672913	6 352	1 444 058	2 133 090	6 352	1 444 058	2 133 090
ABSA - Invest Tracker - 9358190966	3 427	4 683 367	7 512 160	3 427	4 683 367	7 512 160
Nedbank - Call Deposit - 03/7662022528/000016	99 548	96 051	92 903	99 548	96 051	92 903
Total	**226 016**	**7 329 432**	**10 676 248**	**226 016**	**7 329 432**	**10 676 248**

3. Receivable from exchange transactions

	2022	2021
Gross balances		
Trade Debtors	8 539 376	6 985 357
Prepaid expenses	2 088 151	59 316
Other debtors	863 081	48 155
	11 490 608	**7 092 828**
Less: Allowance for impairment		
Trade Debtors	(7 215 470)	(2 648 983)
Other debtors	(839 920)	-
	(8 055 390)	**(2 648 983)**
Net balance		
Trade Debtors	1 323 906	4 336 374
Prepaid expenses	2 088 151	59 316
Other debtors	23 161	48 155
	3 435 218	**4 443 845**

Figures in Rand	2022	2021

3. Receivable from exchange transactions (continued)

Trade Debtors Ageing

Current (0 -30 days)	806 791	399 968
31 - 60 days	76 686	67 639
61 - 90 days	33 521	-
91 - 120 days	40 947	68 308
121 - 365 days	144 101	562 447
> 365 days	7 437 330	5 886 995
	8 539 376	**6 985 357**

Summary of debtors by customer classification

Other Trade Debtors

Current (0 -30 days)	-	-
31 - 60 days	-	-
61 - 90 days	-	-
91 - 120 days	-	300
121 - 365 days	-	-
> 365 days	240 000	240 000
	240 000	240 300
Less: Allowance for impairment	(240 000)	(40 137)
	-	**200 163**

National and Provincial government

Current (0 -30 days)	806 791	399 968
31 - 60 days	76 686	67 638
61 - 90 days	33 521	-
91 - 120 days	40 947	68 008
121 - 365 days	144 101	562 447
> 365 days	7 197 329	5 646 995
	8 299 375	6 745 056
Less: Allowance for impairment	(6 975 469)	(2 608 846)
	1 323 906	**4 136 210**

Total

Current (0 -30 days)	806 791	399 968
31 - 60 days	76 686	67 639
61 - 90 days	33 521	-
91 - 120 days	40 947	68 308
121 - 365 days	144 101	562 447
> 365 days	7 437 330	5 886 995
	8 539 376	6 985 357
Less: Allowance for impairment	(7 215 470)	(2 648 983)
	1 323 906	**4 336 374**

Total debtor past due but not impaired

Current (0 -30 days)	13 154	16 248
31 - 60 days	-	-
61 - 90 days	-	-
91 - 120 days	-	300
121 - 365 days	-	-
> 365 days	78 190	78 190
	91 344	**94 738**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

3. Receivable from exchange transactions (continued)

Reconciliation of allowance for impairment

	2022	2021
Balance at beginning of the year	(2 658 406)	(2 084 804)
Contributions to allowance	(5 396 984)	(564 179)
	(8 055 390)	**(2 648 983)**

Trade debtors pledged as security

None of the debtors were pledged as security during the current year.

4. VAT receivable

	2022	2021
VAT	2 682 789	3 247 447

VAT is a Statutory Receivable

5. Inventories

	2022	2021
Stationery & Consumable	-	1 193
Cleaning Materials	-	21 245
	-	**22 438**

Inventory pledged as security

None of the inventory has been pledged as security.

Notes to the Annual Financial Statements

Figures in Rand

6. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Buildings	16 788 895	(9 256 129)	7 532 766	16 788 895	(8 697 399)	8 091 496
Plant and machinery	2 732 528	(2 688 809)	43 719	2 732 528	(2 558 335)	174 193
Furniture and Office Equipment	5 106 637	(4 703 700)	402 937	6 230 057	(5 551 663)	678 394
Motor vehicles	2 129 662	(1 089 634)	1 040 028	2 033 729	(1 363 410)	670 319
IT equipment	2 786 958	(1 827 932)	959 026	2 754 861	(1 970 074)	784 787
Total	**29 544 680**	**(19 566 204)**	**9 978 476**	**30 540 070**	**(20 140 881)**	**10 399 189**

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Depreciation	Impairment loss	Total
Buildings	8 091 496	-	(558 730)	-	7 532 766
Plant and machinery	174 193	-	(130 474)	-	43 719
Furniture and Office Equipment	678 394	9 413	(279 462)	(5 408)	402 937
Motor vehicles	670 319	613 366	(243 657)	-	1 040 028
IT equipment	784 787	388 945	(210 650)	(4 056)	959 026
	10 399 189	**1 011 724**	**(1 422 973)**	**(9 464)**	**9 978 476**

Notes to the Annual Financial Statements

Figures in Rand

6. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Depreciation	Total
Buildings	8 637 693	13 000	(559 197)	8 091 496
Plant and machinery	426 128	-	(251 935)	174 193
Furniture and Office Equipment	902 226	9 700	(233 532)	678 394
Motor vehicles	940 053	-	(269 734)	670 319
IT equipment	636 722	385 216	(237 151)	784 787
	11 542 822	**407 916**	**(1 551 549)**	**10 399 189**

Pledged as security

There are no assets pledged as security:

Assets subject to finance lease (Net carrying amount)

Telephone and Printing Machinery	-	128 564

Expenditure incurred to repair and maintain property, plant and equipment

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

General expenses	348 184	378 750

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

6. Property, plant and equipment (continued)

Change in estimate

Aggregate of items valued using deemed cost	58 972	58 972

Various movable assets and infrastructure assets with original remaining useful lives varying between 1-30 years have been revised in the beginning of the period to reflect a new depreciable amount and the actual pattern of service potential derived from these assets

The effect on the current and future periods will be a decrease in the depreciation charge of R 58 972.00 in the current period and an equal increase in the depreciation charge of R 58 972.00 over the next periods as per the above table.

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.

Notes to the Annual Financial Statements

Figures in Rand

7. Intangible assets

	2022			2021		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer Software	2 437 062	(2 028 867)	408 195	2 437 062	(1 620 672)	816 390

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer Software	816 390	(408 195)	408 195

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Amortisation	Total
Computer software	1 021 107	203 478	(408 195)	816 390

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

8. Finance lease obligation

Minimum lease payments due		
- within one year	-	107 878
- later than five years	-	-
	-	107 878
less: future finance charges	-	(2 968)
Present value of minimum lease payments	**-**	**104 910**

Present value of minimum lease payments due		
- within one year	-	104 910
- in second to fifth year inclusive	-	-
- later than five years	-	-
	-	**104 910**

The lease term expired during the year.

It is municipality policy to lease certain equipment under finance leases. During the financial year the municipality had two finance lease agreement, namely the printers finance lease and telephone finance lease, with an average lease term of 3 years.

The average lease term was 3 years and the average effective borrowing rate was 11.25%

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets.

9. Payables from exchange transactions

Trade payables	10 565 556	8 746 076
COIDA	3 314 834	2 772 888
Auditor General South Africa	1 302 159	1 428 515
Sundry Creditors	259 121	852 601
Bonus Accrual	1 090 628	1 058 809
Leave pay Accrual	4 492 153	4 982 076
Third party payables	1 847 724	92 435
	22 872 175	**19 933 400**

10. Taxes and transfers payable (non-exchange)

Payables from non-exchange transactions	835 186	-

Below is the details of the unspent grants payable: which is payable:

Mangaung Metro Motheo grant of R 711 416

COGTA - Provincial Infrastructure Grant (PIG) of R87 689.80

Thetha Grant of R 36 080

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

11. Employee benefit obligations

Defined benefit plan

The long service award liability arises from Xhariep District Municipality being a party to the collective agreement on condition of service for the Free State Division of SALGA. This agreement is effective from 1 July 2010.

Xhariep District Municipality has a policy to provide long service awards to employees who have been in service of the municipality for a certain period of time. The municipality offers bonuses for every 5 years of completed service from 5 years to 45 years.

The long service awards plan is a defined benefit plan. At period end 61 employees were eligible for the long service bonuses.

The Long Service Award valuation was conducted as at 30 June 2022.

The current service cost for the year is estimated to be R 293 539 (30 June 2021: R 242 128) whereas the interest cost for the ensuring year is estimated to be R 238 033 (30 June 2021: R 187 328).

Reconciliation of unfunded obligation

	2022	2021
Carrying value		
Opening Balance	2 656 923	2 076 529
Service cost	293 539	242 128
Payments	(201 700)	(95 743)
Interest cost	238 033	187 328
Actuarial gain/ loss	(291 760)	246 681
	2 695 035	**2 656 923**

	2022	2021
Non-current liabilities	(2 476 809)	(2 284 939)
Current liabilities	(218 226)	(371 984)
	(2 695 035)	**(2 656 923)**

The expected value of each employee's long service awards is projected to the next interval by allowing for future salary growth.

Long service benefits are awarded in the form of leave days and a percentage of salary. The average leave has been converted into a percentage of the employee's annual salary. The conversion is based on a 250 working days year per year and therefore the benefits awarded can be expressed as follows:

Net expense recognised in the statement of financial performance

	2022	2021
Current service cost	293 539	242 128
Interest cost	238 033	187 328
Actuarial (gains) losses	(291 760)	246 681
Payment	(201 700)	(95 743)
	38 112	**580 394**

Key assumptions used

Assumptions used at the reporting date:

	2022	2021
Discount rate	12,07 %	8,81 %
Future inflation	7,63 %	5,57 %
Salary inflation	8,63 %	6,57 %
Net discount rate	3,17 %	2,11 %

Discount rate assumption

11. Employee benefit obligations (continued)

The discount rate reflects the estimated timing of benefit payments.

The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. The cashflow weighted duration of the liabilities is approximately 15.0 years. The given duration used in the previous valuation was 7.0 years. We have therefore used the nominal yield curve for zero-coupon SA Government bonds with an average duration between 10 to 15 years as at 30 June 2022. The resultant discount rate was 12.07%. The source is the Johannesburg Stock Exchange through IRESS data services.

Future inflation assumption

The general inflation assumption is used to estimate the base rate for determining the rate at which the future subsidies will increase.We have estimated the market's pricing of inflation by comparing the yields on zero-couponindex linked government bonds and zero-coupon government bonds both of an average of 10 to 15 year duration consistent with the duration of the liabilities. The implied inflation assumption is therefore 7.63% per annum for future inflation. The source of the data is the Johannesburg Stock Exchange through IRESS data service].

Future salary inflation assumption

The general inflation assumption is used to estimate the base rate for determining the rate at which the future salaries will increase.

We assumed that salary inflation will exceed general inflation by 1.0% per annum. Therefore, we have used a salary inflation assumption of 8.63% per annum.

Net discount rate

Even though the actual values used for the discount rate and the expected increase in salary inflation are important, the "gap" between the two assumptions is more important. This "gap" is referred to as the net discount rate. The net discount rate is 3.17% per annum (derived from a discount rate of 12.07% and the expected salary inflation rate of 8.63%).

The implied net discount rate was 2.11% at the previous valuation.

Demographic valuation assumptions

We have retained the demographic assumptions used in the previous year's valuation.

Pre-retirement mortality

We have assumed that the pre-retirement mortality will be in line with the SA85-90 table, which is a table reflecting mortality experience in South Africa. This assumption is consistent with that of the previous valuation.

Withdrawal rates

The table below used reflect the rates of withdrawal used to value the liabilities for both males and females:

Other assumptions

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

	One percentage point increase	One percentage point decrease
Effect on defined benefit obligation (Discount rate)	2 343 349	3 144 502
Effect on defined benefit obligation(Salary inflation)	3 128 834	2 341 828

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

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

11. Employee benefit obligations (continued)

	2022	2021	2020	2019	2018
Defined benefit obligation	2 695 035	2 656 923	2 076 529	2 032 277	1 676 512

12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

	2022	2021
Unspent conditional grants		
Rural Roads Asset Management Systems	1 224 675	-
Financial Management Grant (FMG)	-	-
Expanded Public Works Programme (EPWP)	-	-
	1 224 675	**-**

Movement during the year

	2022	2021
Balance at the beginning of the year	-	87 689
Additions during the year	4 990 000	4 706 000
Income recognition during the year	(3 765 325)	(4 793 689)
	1 224 675	**-**

The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

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

See note 20 for reconciliation of grants from National/Provincial Government.

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

Figures in Rand	2022	2021

13. Revenue

Rental of facilities and equipment	578 571	564 816
Interest received	650 750	304 986
Actuarial gains/ (losses)	291 760	-
Recoveries	839 920	90 536
Other income	91 302	81 410
Gain or loss on disposal of assets and liabilities	60 000	-
Interest received - investment	492 502	651 803
Government grants & subsidies	50 957 326	61 145 000
Financial Assistance	1 639 347	-
LGSETA	31 591	57 976
	55 633 069	**62 896 527**

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

Rental of facilities and equipment	578 571	564 816
Interest received	650 750	304 986
Recoveries	839 920	90 536
Actuarial gains/ (losses)	291 760	-
Gain or loss on disposal of assets and liabilities	60 000	-
Other income	91 302	81 410
Interest received	492 502	651 803
	3 004 805	**1 693 551**

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

Taxation revenue

Transfer revenue

Government grants & subsidies	50 957 326	61 145 000
Financial Assistance	1 639 347	-
LGSETA Income	31 591	57 976
	52 628 264	**61 202 976**

14. Rental of facilities and equipment

Premises		
Rental income	578 571	564 816
	578 571	**564 816**

The amounts emanates from the rental of a section of the building to Kopanong Local Municipality R427 266 (2021: R427 266) and the Free State Gambling Board R151 305 (2021: R137 550)

15. Interest received (debtors)

Interest received receivables	650 750	304 986

The interest on debtors is mainly from Kopanong Local Municipality debt. The local municipality has not been paying for rental and their portion for service charges for the past years.

16. Recoveries Income

Creditors recovered/ written off	839 920	90 536

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

17. Gains or losses on disposal of assets

Gains on disposal of property, plant and equipment	60 000	-

18. Other income

Bylaw certificates Income	27 861	17 730
Parking fee income	61 463	62 289
Tender documents	1 978	1 391
	91 302	**81 410**

19. Investment revenue

Interest revenue		
Bank	1 647	-
Interest received (Investments)	490 855	651 803
	492 502	**651 803**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

20. Government grants & subsidies

Operating grants

Equitable share	47 192 000	47 183 000
Provincial Financial Assistance Grant	-	9 256 000
Expanded Public Works Programme	1 144 000	1 039 000
Rural Roads Asset Management Systems	971 326	2 167 000
Financial Management Grant	1 650 000	1 500 000
	50 957 326	**61 145 000**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants received	4 990 000	4 855 000
Unconditional grants received	47 192 000	56 439 000
	52 182 000	**61 294 000**

Equitable Share

The grant is intended to subsidise the municipality while excluding both strategic and operational responsibilities.

Financial Management Grant

Current-year receipts	1 650 000	1 500 000
Conditions met - transferred to revenue	(1 650 000)	(1 500 000)
	-	-

Conditions have been met - no liabilities recognised (see note 12).

The purpose of the grant is to assist municipalities in building in house capacity, promote and support reform to financial management and implementation of the Municipal Financial Management Act (MFMA) 56 of 2003.

Expanded Public Works Programme

Current-year receipts	(1 144 000)	1 039 000
Conditions met - transferred to revenue	1 144 000	(1 039 000)
	-	-

Conditions have been met - no liabilities recognised (see note 12).

The purpose of the grant is to expand job creation programs in the district.

Rural Road Asset Management

Current-year receipts	2 196 000	2 167 000
Conditions met - transferred to revenue	(971 326)	(2 167 000)
	1 224 674	-

Partial conditions have been met - liabilities recognised (see note 12).

The purpose of this grant is to assist the municipality monitor the conditions of the municipal roads.

The unspent amount relates to the amount paid to the service provider, which could not be fully verified. The municipality has raised a debtor for the overpayment and a committee comprising independent members will be setup to investigate the work performed by the service provider. The unspent amount is not cash backed as it has been paid to the supplier.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

20. Government grants & subsidies (continued)

Provincial Financial Assistance Grant

Current-year receipts	-	9 256 000

The grant is not a conditional grant and the funds are to assist the municipality with operational expenditure.

Disaster Management - (COVID Related Grant)

Balance unspent at beginning of year	-	-
Conditions met - transferred to revenue	-	-
	-	-

Conditions have been met - no liabilities recognised (see note 12).

The grant is intended to assist the municipality with Covid related costs to enhance the health and safety.

21. Financial Assistance in kind

Financial Assistance	1 639 347	-

The Financial Assistance relates to the direct payment of audit fees to the Auditor General by Provincial Government on behalf of Xhariep District Municipality.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

22. Employee related costs

Basic	30 729 582	31 360 050
Bonus	1 907 458	1 887 721
Medical aid - company contributions	2 269 556	2 116 377
UIF	166 226	147 084
SDL	375 170	379 611
SALGBC	9 546	9 266
Leave pay	79 531	1 730 395
Long-service awards	330 636	242 128
Acting allowances	515 248	146 847
Car allowance	3 557 737	3 595 901
Housing benefits and allowances	379 131	359 046
Cellular and Telephone	286 656	270 311
Pension	4 513 047	4 466 268
	45 119 524	**46 711 005**

Remuneration of Municipal Manager (Ms. Moletsane LY)

Annual Remuneration	1 270 198	1 271 942
Car Allowance	180 000	180 000
Bonus - (Remuneration restructured)	105 995	100 906
Contributions to UIF, Medical and Pension Funds	73 787	71 509
Data allowance	96 000	96 000
Other	3 850	-
	1 729 830	**1 720 357**

Contracted ended 27 July 2022.

Remuneration of Chief Finance Officer (Mr. Litabe PV)

Annual Remuneration	1 028 141	1 031 100
Car Allowance	120 000	120 000
Contributions to UIF, Medical and Pension Funds	253 494	250 010
Telephone and Data allowance	13 800	9 600
Acting allowance	14 291	-
	1 429 726	**1 410 710**

Remuneration of Executive Director: Corporate (Adv. Majenge ZQ)

Annual Remuneration	-	1 084 461
Car Allowance	-	108 000
Contributions to UIF, Medical and Pension Funds	-	210 692
Telephone allowance	-	9 600
Leave termination payout	-	256 220
	-	**1 668 973**

Director Corporate Services contract ended 30 June 2021.

Figures in Rand	2022	2021

22. Employee related costs (continued)

Remuneration of Executive Director: Planning and Development Services (Mr. Mohale MS)

Annual Remuneration	1 146 834	1 148 399
Car Allowance	110 911	110 911
Performance Bonuses - (Remuneration restructured)	95 676	91 528
Contributions to UIF, Medical and Pension Funds	60 408	58 310
Data allowance	3 850	-
	1 417 679	**1 409 148**

Contract ended 27 July 2022.

Remuneration of Acting Executive Director: Corporate (Mrs. Augustus NY)

Acting Allowance	211 970	-

The acting allowance which relates to the Executive Director position is disclosed and not the employees remuneration per their original position.

Period of Acting: 01 September 2021 to 28 February 2022.

23. Remuneration of councillors

Executive Mayor	898 423	914 318
Speaker	724 813	740 426
Mayoral Committee Members	1 379 268	1 506 334
Councillors	1 300 438	1 585 295
	4 302 942	**4 746 373**

24. Depreciation and amortisation

Property, plant and equipment	1 422 975	1 551 550
Intangible assets	408 195	408 195
	1 831 170	**1 959 745**

25. Impairment of assets

Impairments

Property, plant and equipment The impaiment loss mainly relates to the old, broken, damaged and not in use assets which no further economic benefits is expected in the future.. The recoverable amount of the asset was based on its fair value less costs to sell or [its value in use.]	9 465	-

The main classes of assets affected by impairment losses are:

Computer Equipment - R 4 055

Furniture and Equipment - R 5 408

The main events and circumstances that led to the reversals of these impairment losses are as follows:

The assets are old, broken, damaged and not working.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

26. Finance costs

Interest charges	345 690	256 814
Bank	1 629	967
	347 319	**257 781**

27. Auditors' remuneration

Fees	3 174 919	2 779 768

28. Debt impairment and bad debts written off

Debt impairment	5 406 407	564 179

29. General expenses

Advertising	223 500	-
Auditors remuneration	3 174 919	2 779 768
Bank charges	42 864	40 562
Consulting and professional fees	933 759	1 101 004
Consumables	22 438	49 033
Entertainment	98 412	43 749
Fines and penalties	57 740	46 742
Insurance	-	700 194
Conferences and seminars	31 493	5 042
Motor vehicle expenses	5 072	3 203
Fuel and oil	417 442	239 061
Postage and courier	35	2 067
Printing and stationery	375 415	101 954
Protective clothing and uniform	105 248	20 840
Repairs and maintenance	348 184	378 750
Software expenses - licenses	667 197	618 283
Subscriptions and membership fees	9 248	99 057
Telephone, data and fax	312 139	560 995
Training and staff bursaries	217 144	52 000
Travel - local	968 073	502 093
Utilities	911 303	895 754
Accommodation	527 586	83 862
Disaster Management and Health and Hygiene	90 991	256 332
Settlement costs	372 237	1 022 032
Skills Development Training	-	468 984
SALGA	550 971	593 869
COIDA	541 946	447 808
Other expenses	131 778	204 581
	11 137 134	**11 317 619**

30. Contracted services

Specialist Services - RRAMS, IT Services	1 114 870	2 403 439
Other Contractors - Mscoa, Water Testing	824 167	1 160 333
	1 939 037	**3 563 772**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

31. Cash used in operations

Deficit	(14 459 929)	(6 470 627)
Adjustments for:		
Depreciation and amortisation	1 831 170	1 959 745
Profit on sale of assets and liabilities	(60 000)	-
Finance costs	-	26 224
Impairment loss	9 465	-
Debt impairment & bad debts write off	5 406 407	564 179
Movements in retirement benefit assets and liabilities	38 112	580 394
Changes in working capital:		
Inventories	22 438	16 548
Receivables	(4 397 780)	(1 081 581)
Payables from exchange transactions	2 938 773	2 454 240
VAT	564 658	(438 220)
Taxes and transfers payable (non-exchange)	835 186	-
Unspent conditional grants and receipts	1 224 675	(87 689)
	(6 046 825)	**(2 476 787)**

32. Contingencies

Contingent liabilities

30 June 2022

SAMWU obo Tefo Alfred Lebaka/ Xhariep District Municipality relates to a claim in terms of the Basic Employment Equity Act. Should the action be successful, the municipality will be liable to cover litigation cost to the approximate value of R 150 000.00.

30 June 2021

SAMWU obo Tefo Alfred Lebaka/ Xhariep District Municipality relates to a claim in terms of the Basic Employment Equity Act. Should the action be successful, the municipality will be liable to cover litigation cost to the approximate value of R 150 000.00.

Contingent assets

30 June 2022

30 June 2021
Xhariep District Municipality/ Khumo Document Solutions (Pan Solutions) relates to the recovery of monies owed to Xhariep District Municipality. The case arises from the default judgement made against the Xhariep District Municipality for monies owed by Khumo Document to Nashua which the municipality was instructed by the court to pay. The municipality leases the printers from Khumo Document Solutions to which the municipality paid Khumo for the services. However Khumo Document Solutions was not paying Nashua as per their contract. The municipality has a contract with Khumo Document Solutions and not with Nashua hence the process to recover the monies paid to Nashua. The amount is not quantifiable at the moment at the reporting date 30 June 2021.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

33. Related parties

Relationships	
Accounting Officer	Refer to accounting officers' report note
Compensation to key management	Refer to employee related cost note 15
Compensation to Councillors	Refer to note 16, General information and below

Remuneration of Council

Notes to the Annual Financial Statements

Figures in Rand

33. Related parties (continued)

Management class: Councillors

2022

Name	Basic salary	Medical	Pension	Travel allowance	Telephone allowance	Other benefits received	Total
Executive Mayor	722 712	118 567	-	-	48 250	8 895	898 423
Speaker	669 031	-	-	-	48 600	7 182	724 813
Mayoral committee members	1 277 674	-	-	24 000	63 970	13 624	1 379 268
Other Councillors	1 026 591	-	41 005	-	220 597	12 244	1 300 438
	3 696 008	**118 567**	**41 005**	**24 000**	**381 417**	**41 945**	**4 302 942**

2021

Name	Basic salary	Medical aid	Pension	Travel allowance	Telephone allowance	Other benefits received	Total
Executive Mayor	744 879	115 980	-	-	44 400	9 059	914 318
Speaker	688 688	-	-	-	44 400	7 338	740 426
Mayoral Committee Members	1 354 755	-	-	72 000	64 800	14 778	1 506 333
Other Councillors	1 199 873	-	71 068	-	300 000	14 353	1 585 295
	3 988 195	**115 980**	**71 068**	**72 000**	**453 600**	**45 528**	**4 746 372**

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

34. Going concern

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated deficit of (10 896 334) and that the municipality's total liabilities exceed its assets by (10 896 334).

The municipality notes that the current liabilities as at 30 June 2022 R 25 150 262 exceeds the current assets R 6 344 066 by R 18 806 196. This is mainly due to cashflow problems which ends up with creditors not being paid when due. The municipality mainly relies on funding from the Government grants and a decrease on Provincial Assisatnce Grant has been noted which has signifcantly impacted the municipality's financial standing. The municipality has put in place measures to ensure that the municipality is able to pay its short term debts on time.

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

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

The municipality had a loss for the period ending 30 June 2022 amounting to R (14 459 929)10 294 199 and as compared to the previous financial year loss of R (6 470 627) (2020/21).

The municipality mainly relies on the funding from National and Provincial Government Grants on its day-to-day operations.

The funding for the municipality is likely to continue as per the approved budget for the 2022/2023 financial year by Council. The approved budget has been assessed and approved by Treasury.

Management assessed the revenue streams and notes that the trading revenue accounts for 5% and Grant accounts for 95% of the total revenue.

The major debtors were assessed and noted that they were already in financial difficulties before the pandemic and have been impaired.

The municipality is highly reliant on the grants and if these are significantly reduced, will have impact on the municipality's going concern. However, no intention to significantly reduced the grants has been noted and no further intention to close or scale down the municipality has been noted from the National and Provincial Government. But a major reduction has been noted on the funding from COGTA in the last three years which has significantly impacted the municipality's financial standing in having consecutive losses. The COGTA grant was reduced from R21million (2018/19); R16milion (2019/20); R9 million (2020/21) and R0 million (2021/22).

The ability of the municipality to continue as a going concern is dependent on the fact that most of the municipality's funding is from grant funding which is guaranteed to be received as allocated in the Division of Revenue Act (DORA) and Provincial Gazette. This funding is expected to slightly increase in the next financial year as shown in the DORA and this will assist the municipality in incurring what we budget properly in our expenditures.

Based on the above assessment, the municipality incurred a consecutive net loss of R (14 459 929) during the year ended 30 June 2022 and, as of that date, the municipality's current liabilities exceeded its current assets by R 18 806 196. The municipality is unable to pay its creditors' accounts when they fall due, as it takes the municipality more than 200 days to settle creditors. The total liabilities exceeded its total assets by R (10 896 334) which means the municipality is insolvent. These events or conditions, along with other matters as set forth above, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

35. Events after the reporting date

At the time of preparing and submitting the Annual Financial Statements there were no subsequent events to disclose.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

36. Unauthorised expenditure

Opening balance as previously reported	24 741 453	30 886 732
Add: Unauthorised expenditure - current	6 110 077	1 861 390
Add: Unauthorised expenditure - prior period	-	(8 006 669)
Closing balance	**30 851 530**	**24 741 453**

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Non-cash	1 767 379	928 187
Cash	4 342 698	933 203
	6 110 077	**1 861 390**

Analysed as follows: non-cash

Depreciation and amortisation	1 640 404	928 187
Provision of impairment	126 975	-
	1 767 379	**928 187**

Analysed as follows: cash

General expenditure	4 017 009	933 203
Finace costs	325 689	-
	4 342 698	**933 203**

37. Fruitless and wasteful expenditure

Opening balance as previously reported	1 935 773	3 047 290
Add: Fruitless and wasteful expenditure identified - current	183 988	66 057
Add: Fruitless and wasteful expenditure identified - prior period	-	8 756
Less: Amount recovered/ reversed - prior period	-	(90 536)
Less: Amount written off - prior period	-	(1 095 794)
Closing balance	**2 119 761**	**1 935 773**

Fruitless and wasteful expenditure is presented inclusive of VAT

Notes to the Annual Financial Statements

Figures in Rand

37. Fruitless and wasteful expenditure (continued)

Details of fruitless and wasteful expenditure

	Disciplinary steps taken/criminal proceedings		
Interest and penalties for late payments of suppliers	The fruitless and wasteful expenditure was identified in the current year and is still under investigation	183 988	74 813

38. Irregular expenditure

Opening balance	48 113 674	44 134 137
Add: Irregular expenditure - current	3 354 493	3 697 063
Add: Irregular expenditure - Vat adjustment prior year	-	282 474
Closing balance	**51 468 167**	**48 113 674**

Figures in Rand

38. Irregular expenditure (continued)

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

	Disciplinary steps taken/criminal proceedings		
Tender process not followed as required by SCM policy	The expenditure was identified during the current financial year and still need to be investigated	1 825 537	2 073 813
Insufficient quotations obtained as required by SCM policy	The expenditure was identified during the current financial year and still need to be investigated	214 485	184 360
Overpayment of Section 56/57 Managers (Salaries above the municipality regulated threshold)	The expenditure was identified in the prior years and is being assessed on how to regularise the expenditure as it is ongoing	1 314 471	1 715 953
		3 354 493	**3 974 126**

Details of irregular expenditure under assessment (not included in the main note)

Appointment of supplier for Rural Roads Asset Management System	-	1 909 494

The expenditure incurred in the current year relating to the tender will be assessed to determine if there was any non compliance with.laws and regulation

Note

The irregular expenditure is disclosed inclusive of Value Added Tax (VAT). National Treasury issued an updated Circular 68 regarding the compulsory disclosure of irregular expenditure in the annual financial statements including VAT. The application is prospective with an adjustment on the opening balance.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

39. 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 annual financial statements.

For the financial year there were instances where goods and services were procured and deviated from the normal supply chain management policy, of which amounted to R 366 288 - 30 June 2022 (30 June 2021: R 847 187).

The reasons for these deviations were documented and reported to the municipal manager who considered them and subsequently approved the deviation from the normal supply chain management regulations.

Reasons for deviation		
Emergency	-	183 393
Sole supplier (5 incidents)	101 352	155 470
Impractical or impossible (23 incidents)	264 936	508 323
	366 288	**847 186**

40. Financial instruments disclosure

Categories of financial instruments

2022

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	3 435 218	3 435 218
Cash and cash equivalents	226 059	226 059
	3 661 277	**3 661 277**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	22 872 175	22 872 175
Finance lease liability	-	-
	22 872 175	**22 872 175**

2021

Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	4 443 845	4 443 845
Cash and cash equivalents	7 329 517	7 329 517
	11 773 362	**11 773 362**

Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	19 933 400	19 933 400
Finance lease liability	104 910	104 910
	20 038 310	**20 038 310**

Financial instruments in Statement of financial performance

2022

	At amortised cost	Total
Interest income	1 143 251	1 143 251
Interest expense	(109 286)	(109 286)
	1 033 965	**1 033 965**

40. Financial instruments disclosure (continued)

2021

	At amortised cost	Total
Interest income (bank/investments)	956 789	956 789
Interest expense	(257 781)	(257 781)
	699 008	**699 008**

41. Risk management

Financial risk management

Liquidity risk

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

Credit risk

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

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

Financial instrument	2022	2021
Nedbank - Call Deposit	99 548	96 051
ABSA - Cheque Account	116 689	1 105 956
ABSA - Invest Tracker	3 427	4 683 367
ABSA - Call Account	6 352	1 444 058
Receivables	3 435 218	4 443 845

Market risk

Interest rate risk

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

The municipality's interest rate risk arises from short term loans and investment. These are issued at variable rate and expose the Municipality to cash flow interest rate risk.

Financial instruments that are issued at fixed rate expose the municipality to fair value interest rate risk.

42. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

The prior period adjustments relate to:

Statement of financial position

2021

	Note	As previously reported	Correction of error	Restated
VAT Receivable		3 254 114	(6 667)	3 247 447
Trade and Other Payables		(20 758 882)	825 482	(19 933 400)
Receivables from exchange transaction		4 638 944	(195 099)	4 443 845
Accumulated Surplus		(2 939 877)	(623 716)	(3 563 593)
		(15 805 701)	**-**	**(15 805 701)**

Statement of financial performance

2021

	Note	As previously reported	Correction of error	Restated
Recoveries Income		-	90 536	90 536
Government grants & subsidies		61 294 000	(149 000)	61 145 000
Finance Costs		(167 245)	(90 536)	(257 781)
Contracted services		(3 590 154)	26 382	(3 563 772)
Debt impairment		(573 602)	9 423	(564 179)
General expenditure		(11 169 962)	(147 657)	(11 317 619)
Surplus for the year		**45 793 037**	**(260 852)**	**45 532 185**

43. Budget differences

Material differences between budget and actual amounts

The excess of actual over the final budget of 5% is deemed to be material. Reasons are provided on the differences belows.

Generally, the actual has been higher than the budgeted amounts for the year.

Statement of Financial Performance

Rental of facilitates and equipment

The variances arise from the rental income being over budgeted. Municipality had anticipated to rent out additional office space.

Recoveries

The municipality did not budget for the recoveries on the write off on creditors balances

Interest received debtors

The variances arise from the interested not budgeted due the local municipality not paying their obligation in the previous years.

Other Income

The variance is due to the under budget on the Planning Department licenses and permits income.

Interest received - Investment

The variances arise from the over budgeting of interest income. The investment income depends on how much and when the Grants amounts are received versus the outstanding payments. The grants were reduced in the current year.

Government grants and Subsidies

The difference is mainly from the reduction of the Provincial Assistance Grant from COGTA in the current year.

Financial Assistance Income

The municipality received financial assistance in the current year from Provincial Treasury which comes in the form support through the payment of audit fees on behalf of the municipality. The amount was not budgeted as Treasury determines when and how much to pay. In the previous year, no Financial Assistance was received.

LGSETA Income

Management over budgeted the income. The amounts are determined by LGSETA during the year hence the variances.

Employee related costs

The decrease is mainly due to the saving on Director Corporate Services which was vacant throughout the year and the reduction in leave provision for the year.

Remuneration of councillors

The variance is mainly to the period of changeover between new council and old council where the full month salaries were not paid. Management only paid a few days for the month of November 2021

Depreciation and amortisation

The variance is due to under budgeting in the current financial year.

Figures in Rand	2022	2021

43. Budget differences (continued)

Finance costs

The variance is due to under budgeting in the current financial year.

Debt Impairment

The variance is due to under budgeting in the current financial year.

Contracted services

The underspending is due to costs which are reallocated from contractors to general expenses such as Mscoa license fees and mSCOA trainings.

General expenses

The variance is due under budgeting in the current financial year due to the tight budget.

Statement of Financial Position

Inventories

The variance is due to the municipality utilising all the consumables during the year and not having any consumables at hand at year end.

VAT Receivables

The municipality over budgeted for Value Added Tax.

Receivables from exchange transactions

The municipality under budgeted the receivables. The receivables increased mainly from Kopanong local municipality

Cash and cash equivalents.

The decrease is mainly from the reduction in the grants which the municipality invests and earns interest.

Property, plant and equipment

The over budgeting is due to depreciation for the year not being factored in the budget

Intangible assets

The over budgeting is due to amortisation for the year not being factored in the budget.

Finance Lease.

The municipality did not budget for the finance lease liability

Payables from exchange transactions

The municipality under budgeted due to an erroneous error on the budget template.

Unspent conditional grants

The municipality did not budget the unspent as it anticipated that the grants will be fully utilised in the current financial year.

Employee Benefit Obligation

Figures in Rand	2022	2021

43. Budget differences (continued)

The employee benefit obligation was not budgeted for the year.

Cash flow statement

Grants

The municipality over budgeting on the Provincial Assistance grant which was not received in the current year.

Other receipts

The municipality overbudgeted the during the year.

Employee costs

The municipality overbudgeted the during the year and there was a saving on Director Corporate Services which was vacant throughout the year

Suppliers

The variance is due under budgeting in the current financial year due to the shortage of funds. budget.

Finance costs

The variance is due under budgeting in the current financial year due to the shortage of funds. budget.

Purchase of equipment

The variance is due under budgeting in the current financial year due to the shortage of funds.

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

44. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government (SALGBC)

Current year subscription / fee	19 092	18 542
Amount paid - current year	(17 485)	(18 542)
	1 607	**-**

VAT

Opening balance as previously reported	3 247 447	2 809 227
Add: current period	1 367 549	1 580 829
Less: Amounts paid/ recovered - current year	(1 932 207)	(1 142 609)
	2 682 789	**3 247 447**

Audit fees

Opening balance	1 428 515	1 048 187
Current year subscription / fee	3 754 827	3 145 464
Amount paid - current year	(3 881 183)	(2 765 136)
	1 302 159	**1 428 515**

PAYE UIF and SDL

Opening balance	593 031	663 104
Current year subscription / fee	9 226 640	9 656 042
Amount paid - current year	(8 485 910)	(9 726 115)
Amount reversed/ written off prior years	(595 930)	-
	737 831	**593 031**

Pension and Medical Aid Deductions

Opening balance	19 201	-
Current year subscription / fee	10 583 063	10 270 617
Amount paid - current year	(9 691 114)	(10 251 416)
	911 150	**19 201**

Notes to the Annual Financial Statements

45. New standards and interpretations

45.1 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:

45.2 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:

Notes to the Annual Financial Statements

Figures in Rand	2022	2021

46. Segment information

General information

Identification of segments

The municipality does not have any reportable segments.