# CAPRICORN DISTRICT MUNICIPALITY

# AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2021

* See Note 36

# General Information

**Mayoral committee**

| | |
|---|---|
| Executive Mayor | Mpe MJ |
| Councillors | Mohale MM (Speaker) |
| | Masoga MC(Chief whip) |
| | Mokobodi MM (MMC : Infrastructure Services) |
| | Boloka MP(MMC : Finance) |
| | Kgare MB ( MMC : Community Services) |
| | Malebana CWD (MMC : Corporate Services) |
| | Masubelele JA (MMC : Strategic Executive Management Services) |
| | Selamolela MS ( MMC : Planning) |
| | Kgatla KE (MMC : Sports, Arts and Culture) |
| | Mothiba ML (MMC: Local Economic Development ) |
| | Masoga PS ( Chairperson : Committee of Chairpersons) |
| | Motjopi S ( Chairperson : Ethics, Rules and Integrity Committee) |
| | Molepo FJ ( Chairperson : Infrastructure Services Portfolio Committee) |
| | Morotoba NL ( Chairperson : Community Services Portfolio Committee) |
| | Phoshoko MS ( Chairperson : Finance Portfolio Committee) |
| | Ledwaba PE ( Chairperson : Corporate Services Portfolio Committee) |
| | Masekwameng MR ( Chairperson : Development Planning and Environmenal Management Portfolio Committee) |
| | Makgato MP ( Chairperson : Municipal Public Accounts Committee) |
| | Baloyi RA ( Member) |
| | Botha AH (Member) |
| | Dikgale SJ (Member) |
| | Hopane TE ( Member) |
| | Kgokolo RD ( Member) |
| | Khan N (Member) |
| | Kubheka DO (Member) |
| | Legodi NJ (Member) |
| | Lehong MV(Member) |
| | Mabena KL(Member) |
| | Mabote MG(Member) |
| | Makgahlela MB(Member) |
| | Makola J (Member) |
| | Maleka ME (Member) |
| | Malema RR (Member) |
| | Mapakela MM (Member) |
| | Mashangoane PR (Member) |
| | Mathabatha TP (Member) |
| | Moabelo ML (Member) |
| | Modiba MS(Member) |
| | Modiba MT (Member) |
| | Mogashoa ME (Member) |
| | Mogale TJ( Member) |
| | Molokomme MM (Member) |
| | Mosena DD (Member) |
| | Mothata LS (Member) |
| | Motolla MO(Member) |
| | Phoshoko NC(Member) |

## General Information

| | |
|---|---|
| | Pretorious M (Member)<br>Rakimana PT(Member)<br>Ramaloko SE (Member)<br>Sekgobela M (Member)<br>Sesera MC (Member)<br>Setjie ND (Member)<br>Sivhabu NA (Member) |
| **Grading of local authority** | Category B - Grade 5 |
| **Chief Finance Officer (CFO)** | Thabo Nonyane |
| **Accounting Officer** | Thuso Nemugumoni |
| **Registered office** | 41 Biccard Street<br>Polokwane<br>0700 |
| **Business address** | 41 Biccard Street<br>Polokwane<br>0700 |
| **Postal address** | PO Box 4100<br>Polokwane<br>0700 |
| **Bankers** | FNB (Primary bank account) |
| **Auditors** | Auditor - General |
| **Telephone number** | 015 294 1000 |
| **Fax number** | 015 291 4297 |
| **Email address** | info@cdm.org.za |

# Index

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



| | |
|---|---|
| COID | Compensation for Occupational Injuries and Diseases |
| GRAP | Generally Recognised Accounting Practice |
| IAS | International Accounting Standards |
| IPSAS | International Public Sector Accounting Standards |
| RRAMS | Rural Roads Asset Management System |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant |
| WSIG | Water Services Infrastructure Grant |
| EPWP | Expanded Public Works Programme |
| FMG | Finance Management Grant |

## Accounting Officer's Responsibilities and Approval

I am responsible for the preparation of these annual financial statements for the year ended 30 June 2021, as set out in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003) and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in note 17 of these quarterly financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act (Act 20 of 1998) and the Minister of Provincial and Local Government's determination in accordance with this Act.

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 audited financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the audited financial statements fairly present the state of affairs of the municipality as at the end of the quarter 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 audited financial statements and was given unrestricted access to all financial records and related data.

The audited 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 audited 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 audited financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2022 and, in the light of this review and the current financial position, she is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

TLNemugumoni

**Thuso Nemugumoni**
**Acting Municipal Manager**

# Accounting Officer's Report

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

### 1. Review of activities

**Main business and operations**

The municipality is engaged in local goverment activities, which include planning and promotion of integrated development plan and supplying of the services to the community which are water, sanitation, fire and environmental health services.

Net surplus of the municipality was R 356 767 550 (2020: surplus R 356 706 761).

### 2. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 3 412 773 989 and that the municipality's total assets exceed its liabilities by R 3 412 773 989.

The audited 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.

Continued assessments will be performed to ensure that the COVID-19 pandemic demands are met without interruptions in service delivery.

### 3. Subsequent events

The government has declared the State of Disaster for COVID 19 pandemic with effect from the 26 March 2020. The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remains in progress at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as financial impact on current and future periods since the period of national state of disaster is extended to 15 September 2021.

The COVID 19 pandemic will however not result in the adjusting events as all the expenditures incurred will be reported in the financial year in which they occured.

Since the spread of COVID-19 and subsequent implementation of the National Lockdown, in terms of section 27(2) of the Disaster Management Act of 2002, has severely impacted the South African economy. Businesses are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing, and closures of non-essential services have triggered significant disruptions to businesses countrywide, resulting in an economic slowdown. Global stock markets have also experienced great volatility and a significant weakening. Government and central bank have responded with monetary and fiscal interventions to stabilise economic conditions.

### 4. Accounting policies

The audited financial statements prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP) issued by the Accounting Standards Board as the prescribed framework by National Treasury.

TLR Nemugumoni

**Thuso Nemugumoni**
**Acting Municipal Manager**

## Statement of Financial Position as at 30 June 2021

| Figures in Rand | Note(s) | 2021 | 2020 Restated* |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Inventories | 4 | 3 147 373 | 3 272 887 |
| Receivables from non-exchange transactions | 3 | 31 417 964 | 32 005 437 |
| VAT receivable | 6 | 29 256 942 | 4 519 654 |
| Prepayments | 5 | 2 714 099 | 3 204 938 |
| Receivables from exchange transactions | 15 | 53 230 801 | 47 294 237 |
| Cash and cash equivalents | 2 | 353 903 970 | 360 786 777 |
| | | **473 671 149** | **451 083 930** |
| **Non-Current Assets** | | | |
| Property, plant and equipment | 7 | 3 156 754 869 | 2 854 125 694 |
| Intangible assets | 8 | 4 496 616 | 3 949 944 |
| | | **3 161 251 485** | **2 858 075 638** |
| **Total Assets** | | **3 634 922 634** | **3 309 159 568** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Finance lease obligation | 13 | 1 322 561 | - |
| Operating lease liability | 14 | 102 173 | 283 207 |
| Payables from exchange transactions | 11 | 136 922 504 | 158 429 826 |
| Employee benefit obligation | 10 | 14 695 448 | 12 810 188 |
| Unspent conditional grants and receipts | 12 | 3 875 745 | 28 856 868 |
| | | **156 918 431** | **200 380 089** |
| **Non-Current Liabilities** | | | |
| Finance lease obligation | 13 | 2 292 316 | - |
| Employee benefit obligation | 10 | 62 937 898 | 52 773 048 |
| | | **65 230 214** | **52 773 048** |
| **Total Liabilities** | | **222 148 645** | **253 153 137** |
| **Net Assets** | | **3 412 773 989** | **3 056 006 431** |
| Accumulated surplus | | 3 412 773 989 | 3 056 006 431 |
| **Total Net Assets** | | **3 412 773 989** | **3 056 006 431** |

* See Note 36

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2021 | 2020 Restated* |
|---|---|---|---|
| **Revenue** | | | |
| **Revenue from exchange transactions** | | | |
| Service charges | 38 | 81 097 388 | 71 288 454 |
| Other income | 40 | 1 622 846 | 439 834 |
| Interest received - investment | 42 | 23 739 979 | 28 703 486 |
| Interest received - outstanding debtors | 42 | 31 010 950 | 14 110 448 |
| **Total revenue from exchange transactions** | | **137 471 163** | **114 542 222** |
| **Revenue from non-exchange transactions** | | | |
| **Transfer revenue** | | | |
| Government grants & subsidies | 39 | 1 043 822 004 | 974 352 060 |
| Donations | 49 | - | 546 000 |
| Fines, Penalties and Forfeits | 53 | 61 090 | - |
| **Total revenue from non-exchange transactions** | | **1 043 883 094** | **974 898 060** |
| **Total revenue** | 16 | **1 181 354 257** | **1 089 440 282** |
| **Expenditure** | | | |
| Employee related costs | 17 | (338 860 297) | (320 370 491) |
| Remuneration of councillors | 18 | (15 213 165) | (15 155 157) |
| Depreciation and amortisation | 20 | (70 646 145) | (71 294 641) |
| Finance costs | 22 | (114 646) | (109 850) |
| Lease rentals on operating lease | 44 | (6 470 143) | (5 198 995) |
| Debt Impairment | 41 | (57 505 933) | (46 676 508) |
| Commission expense | 19 | (33 632 502) | (25 670 499) |
| Invetories Consumed | 23 | (80 338 395) | (79 050 967) |
| Contracted services | 45 | (111 432 664) | (81 797 597) |
| Transfers and Subsidies | 24 | (336 842) | (2 663 158) |
| Loss on disposal of assets and liabilities | 48 | (9 506 770) | (159 755) |
| Impairment Loss | 35 | (13 976 846) | (9 620 006) |
| Derecognition of assets | 21 | (16 410 509) | (704 103) |
| General Expenses | 32 | (54 210 062) | (49 699 734) |
| Repairs and maintenance | 51 | (15 931 788) | (24 562 060) |
| **Total expenditure** | | **(824 586 707)** | **(732 733 521)** |
| **Surplus for the period** | | **356 767 550** | **356 706 761** |

* See Note 36

## Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
| --- | --- | --- |
| Opening balance as previously reported | 2 691 518 521 | 2 691 518 521 |
| Adjustments | | |
| Prior year adjustments (Note 35) | 7 781 149 | 7 781 149 |
| **Balance at 1 July 2019** | **2 699 299 670** | **2 699 299 670** |
| Changes in net assets | | |
| Surplus for the year | 356 706 761 | 356 706 761 |
| Total changes | 356 706 761 | 356 706 761 |
| **Restated* Balance at 01 July 2020** | **3 056 006 439** | **3 056 006 439** |
| Changes in net assets | | |
| Surplus for the year | 356 767 550 | 356 767 550 |
| Total changes | 356 767 550 | 356 767 550 |
| **Balance at 30 June 2021** | **3 412 773 989** | **3 412 773 989** |

* See Note 36

# Statement of Cash Flow

| Figures in Rand | Note(s) | 2021 | 2020 Restated* |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Income received from service charges and other income | | 17 708 049 | 36 860 784 |
| Grants | | 1 018 840 881 | 974 352 060 |
| Interest received- external investments | | 23 739 979 | 28 703 486 |
| | | 1 060 288 909 | 1 039 916 330 |
| **Payments** | | | |
| Employee costs | | (333 709 116) | (327 806 695) |
| Suppliers | | (323 363 308) | (201 423 277) |
| Finance costs | | (114 646) | (109 850) |
| | | (657 187 070) | (529 339 822) |
| **Net cash flows from operating activities** | 26 | **403 101 839** | **510 576 508** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 7 | (409 182 354) | (403 966 930) |
| Proceeds from sale of property, plant and equipment | 7 | 1 125 412 | - |
| Purchase of other intangible assets | 8 | (1 390 596) | (441 986) |
| **Net cash flows from investing activities** | | **(409 447 538)** | **(404 408 916)** |
| **Cash flows from financing activities** | | | |
| Finance lease payments | | (524 398) | (1 948 162) |
| **Net increase/(decrease) in cash and cash equivalents** | | **(6 870 097)** | **104 219 430** |
| Cash and cash equivalents at the beginning of the year | | 360 786 777 | 256 567 347 |
| **Cash and cash equivalents at the end of the year** | 2 | **353 916 680** | **360 786 777** |

* See Note 36

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual 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** | | | | | | |
| Service charges | 72 109 000 | 8 988 388 | **81 097 388** | 81 097 388 | - | 47 |
| Other income | 1 149 000 | 534 936 | **1 683 936** | 1 622 846 | **(61 090)** | 47 |
| Interest received - investment | 29 470 000 | (5 730 021) | **23 739 979** | 23 739 979 | - | 47 |
| Interest received - outstanding debtors | - | 31 010 950 | **31 010 950** | 31 010 950 | - | 47 |
| **Total revenue from exchange transactions** | **102 728 000** | **34 804 253** | **137 532 253** | **137 471 163** | **(61 090)** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 950 767 000 | 93 481 425 | **1 044 248 425** | 1 043 822 004 | **(426 421)** | |
| Fines, Penalties and Forfeits | - | 100 000 | **100 000** | 61 090 | **(38 910)** | 47 |
| **Total revenue from non-exchange transactions** | **950 767 000** | **93 581 425** | **1 044 348 425** | **1 043 883 094** | **(465 331)** | |
| **Total revenue** | **1 053 495 000** | **128 385 678** | **1 181 880 678** | **1 181 354 257** | **(526 421)** | |
| **Expenditure** | | | | | | |
| Personnel | (328 394 000) | (12 181 520) | **(340 575 520)** | (338 860 297) | **1 715 223** | 47 |
| Remuneration of councillors | (16 206 000) | - | **(16 206 000)** | (15 213 165) | **992 835** | 47 |
| Depreciation and amortisation | (79 724 000) | 4 766 000 | **(74 958 000)** | (70 646 145) | **4 311 855** | 47 |
| Finance costs | (470 000) | - | **(470 000)** | (114 646) | **355 354** | 47 |
| Lease rentals on operating lease | (6 732 000) | (1 409 000) | **(8 141 000)** | (6 470 143) | **1 670 857** | 47 |
| Debt impairment | (9 649 000) | (47 858 000) | **(57 507 000)** | (57 505 933) | **1 067** | 47 |
| Commission expense | (62 460 000) | 28 827 000 | **(33 633 000)** | (33 632 502) | **498** | 47 |
| Inventory Consumed | (76 158 000) | (4 592 000) | **(80 750 000)** | (80 338 395) | **411 605** | 47 |
| Contracted Services | (96 599 000) | (28 685 774) | **(125 284 774)** | (111 432 664) | **13 852 110** | 47 |
| Transfers and Subsidies | - | (336 842) | **(336 842)** | (336 842) | - | 47 |
| Derecognition of assets | - | (17 000 000) | **(17 000 000)** | (16 410 509) | **589 491** | |
| General Expenses | (135 450 000) | 11 608 350 | **(123 841 650)** | (70 141 850) | **53 699 800** | 47 |
| **Total expenditure** | **(811 842 000)** | **(66 861 786)** | **(878 703 786)** | **(801 103 091)** | **77 600 695** | |
| **Operating surplus** | **241 653 000** | **61 523 892** | **303 176 892** | **380 251 166** | **77 074 274** | |
| Loss on disposal of assets and liabilities | - | (18 670 000) | **(18 670 000)** | (9 506 770) | **9 163 230** | 47 |
| Impairment loss | - | (6 978 000) | **(6 978 000)** | (13 976 846) | **(6 998 846)** | 47 |
| | **-** | **(25 648 000)** | **(25 648 000)** | **(23 483 616)** | **2 164 384** | |
| **Surplus for the year** | **241 653 000** | **35 875 892** | **277 528 892** | **356 767 550** | **79 238 658** | |

# Capricorn District Municipality
Audited Financial Statements for the year ended 30 June 2021

## 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 | 3 949 477 | (798 084) | **3 151 393** | 3 147 373 | **(4 020)** | 47 |
| Receivables from non-exchange transactions | 28 437 463 | 3 000 000 | **31 437 463** | 31 417 964 | **(19 499)** | 47 |
| VAT receivable | 18 500 000 | (200 000) | **18 300 000** | 29 256 942 | **10 956 942** | 47 |
| Prepayments | 2 800 000 | - | **2 800 000** | 2 714 099 | **(85 901)** | 47 |
| Receivables from exchange transaction | 456 223 474 | (402 881 336) | **53 342 138** | 53 230 801 | **(111 337)** | 47 |
| Cash and cash equivalents | 210 661 772 | 143 635 801 | **354 297 573** | 353 903 970 | **(393 603)** | 47 |
| | **720 572 186** | **(257 243 619)** | **463 328 567** | **473 671 149** | **10 342 582** | |
| **Non-Current Assets** | | | | | | |
| Property, plant and equipment | 3 135 468 798 | 56 801 899 | **3 192 270 697** | 3 156 754 869 | **(35 515 828)** | 47 |
| Intangible assets | 2 196 729 | 2 489 392 | **4 686 121** | 4 496 616 | **(189 505)** | 47 |
| | **3 137 665 527** | **59 291 291** | **3 196 956 818** | **3 161 251 485** | **(35 705 333)** | |
| **Total Assets** | **3 858 237 713** | **(197 952 328)** | **3 660 285 385** | **3 634 922 634** | **(25 362 751)** | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Finance lease obligation | 181 000 | 1 169 000 | **1 350 000** | 1 322 561 | **(27 439)** | 47 |
| Operating lease liability | 107 533 | - | **107 533** | 102 173 | **(5 360)** | 47 |
| Payables from exchange transactions | 236 017 386 | (22 714 710) | **213 302 676** | 136 922 496 | **(76 380 180)** | 47 |
| Employee benefit obligation | 31 618 971 | (16 759 784) | **14 859 187** | 14 695 448 | **(163 739)** | 47 |
| Unspent conditional grants and receipts | - | 4 000 000 | **4 000 000** | 3 875 745 | **(124 255)** | 47 |
| | **267 924 890** | **(34 305 494)** | **233 619 396** | **156 918 423** | **(76 700 973)** | |
| **Non-Current Liabilities** | | | | | | |
| Finance lease obligation | - | 2 300 000 | **2 300 000** | 2 292 316 | **(7 684)** | |
| Employee benefit obligation | 43 099 000 | 19 674 431 | **62 773 431** | 62 937 898 | **164 467** | 47 |
| | **43 099 000** | **21 974 431** | **65 073 431** | **65 230 214** | **156 783** | |
| **Total Liabilities** | **311 023 890** | **(12 331 063)** | **298 692 827** | **222 148 637** | **(76 544 190)** | |
| **Net Assets** | **3 547 213 823** | **(185 621 265)** | **3 361 592 558** | **3 412 773 997** | **51 181 439** | |
| **Net Assets** | | | | | | |
| Accumulated surplus | 3 547 213 823 | (185 621 265) | **3 361 592 558** | 3 412 773 997 | **51 181 439** | |

## 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** | | | | | | |
| Income received from service charges and other income | 15 571 000 | - | **15 571 000** | 17 708 049 | **2 137 049** | 47 |
| Grants | 948 324 000 | 38 470 000 | **986 794 000** | 1 018 840 881 | **32 046 881** | |
| Interest income | 29 470 000 | (8 651 000) | **20 819 000** | 23 739 979 | **2 920 979** | 47 |
| | **993 365 000** | **29 819 000** | **1 023 184 000** | **1 060 288 909** | **37 104 909** | |
| **Payments** | | | | | | |
| Employee costs | (344 600 000) | (12 181 520) | **(356 781 520)** | (333 709 116) | **23 072 404** | 47 |
| Suppliers | (377 399 000) | (17 811 029) | **(395 210 029)** | (323 363 308) | **71 846 721** | 47 |
| Finance costs | (470 000) | - | **(470 000)** | (114 646) | **355 354** | 47 |
| | **(722 469 000)** | **(29 992 549)** | **(752 461 549)** | **(657 187 070)** | **95 274 479** | |
| **Net cash flows from operating activities** | **270 896 000** | **(173 549)** | **270 722 451** | **403 101 839** | **132 379 388** | **26** |
| **Cash flows from investing activities** | | | | | | |
| Purchase of property, plant and equipment | (321 377 000) | (133 243 854) | **(454 620 854)** | (409 182 354) | **45 438 500** | 47 |
| Proceeds from sale of property, plant and equipment | - | - | - | 1 125 412 | **1 125 412** | 47 |
| Purchase of other intangible assets | - | - | - | (1 390 596) | **(1 390 596)** | 46 |
| **Net cash flows from investing activities** | **(321 377 000)** | **(133 243 854)** | **(454 620 854)** | **(409 447 538)** | **45 173 316** | |
| **Cash flows from financing activities** | | | | | | |
| Finance lease payments | - | - | - | (524 398) | **(524 398)** | 47 |
| Net increase/(decrease) in cash and cash equivalents | (50 481 000) | (133 417 403) | **(183 898 403)** | (6 870 097) | **177 028 306** | |
| Cash and cash equivalents at the beginning of the year | 136 480 832 | 224 306 000 | **360 786 832** | 360 786 777 | **(55)** | |
| **Cash and cash equivalents at the end of the year** | **85 999 832** | **90 888 597** | **176 888 429** | **353 916 680** | **177 028 251** | |

# Capricorn District Municipality
Audited Financial Statements for the year ended 30 June 2021

## Appropriation Statement

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **2021** | | | | | | | | | | | |
| **Financial Performance** | | | | | | | | | | | |
| Service charges | 72 109 000 | - | 72 109 000 | - | 39 999 338 | 112 108 338 | 81 097 388 | | (31 010 950) | 72 % | 112 % |
| Investment revenue | 29 470 000 | (8 651 000) | 20 819 000 | - | 2 920 979 | 23 739 979 | 54 750 929 | | 31 010 950 | 231 % | 186 % |
| Transfers recognised - operational | 641 606 000 | 41 007 000 | 682 613 000 | - | 26 966 269 | 709 579 269 | 697 312 004 | | (12 267 265) | 98 % | 109 % |
| Other own revenue | 1 149 000 | 136 031 000 | 137 180 000 | - | (135 396 064) | 1 783 936 | 1 683 936 | | (100 000) | 94 % | 147 % |
| **Total revenue (excluding capital transfers and contributions)** | **744 334 000** | **168 387 000** | **912 721 000** | **-** | **70 857 648** | **847 211 522** | **834 844 257** | | **(12 367 265)** | **99 %** | **112 %** |
| Employee costs | (328 394 000) | (10 455 520) | (338 849 520) | - | (1 726 000) | (340 575 520) | (338 860 297) | - | 1 715 223 | 99 % | 103 % |
| Remuneration of councillors | (16 206 000) | - | (16 206 000) | - | - | (16 206 000) | (15 213 165) | - | 992 835 | 94 % | 94 % |
| Debt impairment | (9 649 000) | (30 000 000) | (39 649 000) | | (17 858 000) | (57 507 000) | (57 505 933) | - | 1 067 | 100 % | 596 % |
| Depreciation and asset impairment | (79 724 000) | 5 865 000 | (73 859 000) | | (1 099 000) | (74 958 000) | (70 646 145) | - | 4 311 855 | 94 % | 89 % |
| Finance charges | (470 000) | - | (470 000) | - | - | (470 000) | (114 646) | - | 355 354 | 24 % | 24 % |
| Materials and bulk purchases | (76 158 000) | 2 055 000 | (74 103 000) | - | (6 647 000) | (80 750 000) | (80 338 395) | - | 411 605 | 99 % | 105 % |
| Transfers and grants | - | - | - | - | (336 842) | (336 842) | (336 842) | - | - | 100 % | DIV/0 % |
| Other expenditure | (301 241 000) | (32 849 960) | (334 090 960) | - | 542 536 | (333 548 424) | (261 571 284) | - | 71 977 140 | 78 % | 87 % |
| **Total expenditure** | **(811 842 000)** | **(65 385 480)** | **(877 227 480)** | **-** | **(27 124 306)** | **(904 351 786)** | **(824 586 707)** | **-** | **79 765 079** | **91 %** | **102 %** |
| **Surplus/(Deficit)** | **(67 508 000)** | **103 001 520** | **35 493 520** | **-** | **43 733 342** | **(57 140 264)** | **10 257 550** | | **67 397 814** | **(18)%** | **(15)%** |

## Appropriation Statement

Figures in Rand

| | Original budget | Budget adjustments (i.t.o. s28 and s31 of the MFMA) | Final adjustments budget | Shifting of funds (i.t.o. s31 of the MFMA) | Virement (i.t.o. council approved policy) | Final budget | Actual outcome | Unauthorised expenditure | Variance | Actual outcome as % of final budget | Actual outcome as % of original budget |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Transfers recognised - capital | 309 161 000 | (4 980 000) | 304 181 000 | - | 30 488 156 | 334 669 156 | 346 510 000 | | 11 840 844 | 104 % | 112 % |
| **Surplus (Deficit) after capital transfers and contributions** | **241 653 000** | **98 021 520** | **339 674 520** | **-** | **74 221 498** | **277 528 892** | **356 767 550** | | **79 238 658** | **129 %** | **148 %** |
| **Surplus/(Deficit) for the year** | **241 653 000** | **98 021 520** | **339 674 520** | **-** | **114 204 018** | **277 528 892** | **356 767 550** | | **79 238 658** | **129 %** | **148 %** |
| **Capital expenditure and funds sources** | | | | | | | | | | | |
| Total capital expenditure | (321 377 000) | (128 898 000) | (450 275 000) | - | (4 345 854) | (454 620 854) | 553 728 988 | | 1 008 349 842 | (122)% | (172)% |
| **Cash flows** | | | | | | | | | | | |
| Net cash from (used) operating | 270 895 800 | 125 018 000 | 395 913 800 | - | (125 191 549) | 270 722 251 | 403 101 839 | | 132 379 588 | 149 % | 149 % |
| Net cash from (used) investing | (321 377 000) | (128 898 000) | (450 275 000) | - | (4 345 854) | (454 620 854) | (409 447 538) | | 45 173 316 | 90 % | 127 % |
| Net cash from (used) financing | - | - | - | - | | - | (524 398) | | (524 398) | DIV/0 % | DIV/0 % |
| **Net increase/(decrease) in cash and cash equivalents** | **(50 481 200)** | **(3 880 000)** | **(54 361 200)** | **-** | | **(183 898 603)** | **(6 870 097)** | | **177 028 506** | **4 %** | **14 %** |
| Cash and cash equivalents at the beginning of the year | - | - | - | - | | - | 360 786 777 | | 360 786 777 | DIV/0 % | DIV/0 % |
| **Cash and cash equivalents at year end** | **(50 481 200)** | **(3 880 000)** | **(54 361 200)** | **-** | | **(183 898 603)** | **353 916 680** | | **(537 815 283)** | **(192)%** | **(701)%** |

### 1. Presentation of Audited Financial Statements

The annual financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention unless specified otherwise.

These audited 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).

The principal accounting policies adopted in the preparation of these annual financial statements are set out below.

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

The accounting policies applied are consistent with those used to present the previous year's financial statements, unless explicitly stated. The details of any changes in accounting policies are explained in the relevant policy.

#### 1.1 Presentation currency

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

#### 1.2 Going concern assumption

These audited 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 Comparative figures

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

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed. Where accounting errors have been identified in the current year, the correction is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable, and the prior year comparatives are restated accordingly.

#### 1.5 Standards, amendments to standards and interpretations

The following GRAP standards have been issued and are effective from 1 April 2020.

| No. | Title of Standard | Impact on GRAP Reporting Framework |
| --- | --- | --- |
| GRAP 36 | Investment in Associates and Joint Ventures | No material impact |
| GRAP 37 | Joint Arrangements | No material impact |
| GRAP 38 | Disclosure of interest in other entities | No material impact |
| GRAP 110 | Living and Non Living Resources | No material impact |
| GRAP 18 | Segment Reporting | No material impact |
| GRAP 34 | Separate Financial Statements | No material impact |
| GRAP 35 | Consolidated Financial Statements | No material impact |

# Accounting Policies

### 1.6 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

**Depreciation**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

| Item | Average useful life |
|---|---|
| Buildings | 10-55 |
| Furniture and fixtures | 8-20 |
| Motor vehicles | |
| • Specialised services | 7-20 |
| • Other vehicles | 7-20 |
| Machinery and equipment | 8-20 |
| IT equipment | 8-23 |
| Computer software | 8-11 |
| Infrastructure | |
| • Roads and paving | 15-50 |
| Community | |
| • Buildings | 10-55 |
| • Security | 3-10 |
| Other equipment | |
| • Copiers | 3-6 |
| • Telephones | 3-6 |
| • Emergency Equipment | 5-8 |
| Communication equipment | 3-6 |
| Leased Assets | |
| • Office Equipment | 1-10 |
| Wastewater network | |
| • Sewerage | 15-50 |
| Water network | |
| • Water maintenance and purification | 15-55 |
| • Water reservoir | 30-55 |

The residual value, the useful life and depreciation method of each asset are reviewed at least at of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

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

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 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 or disposal of the asset.

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

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

**Initial recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year. Items of property, plant and equipment are initially recognised as assets on acquisition date and are initially recorded 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

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.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

**Subsequent measurement - cost**

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset.

**Depreciation**

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

**Derecognition**

Items of Property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

**Work in progress**

Construction work in progress is recognised at cost and transferred to asset upon completion. Construction work in progress is not depreciable until after it is transfered to completed assets.

### 1.7 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.

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

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.

Judgements made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets, are as follows:

**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 test 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.

**Reversal of an impairment loss**

The municipality assess 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.

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

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.

### 1.8 Intangible assets

**Initial Recognition**

An intangible asset is an identifiable non-monetary asset without physical substance. Examples include computer software, licences, and development costs. The municipality recognises an intangible asset in its Statement of Financial Position only 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.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale
- it is technically feasible to complete the intangible asset
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

Where an intangible asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

Where an intangible asset 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.

**Subsequent measurement -cost model**

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

**Amortisation and impairment**

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

| | |
|---|---|
| Computer software | 8-11 |

The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

**Derecognition**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### 1.8 Intangible assets (continued)

**Website costs**

The municipality has a website designed for internal and external access. The municipality is at the operating stage which comprises maintaining and enhancing applications, infrastructure, graphical design and the content of the file. The municipality incurs internally generated costs on the operation of the website and the costs are therefore expensed.

### 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 weighted average cost .

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.

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 is assigned using the weighted average cost 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.

**Initial recognition**

Inventories assets in the form of materials or supplies to be consumed or distributed in the rendering of service. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date.

Consumable inventory is valued using the weighted average cost whilst water inventory is valued using the weighted average cost method.

**Subsequent measurement**

Inventories, consisting of consumable stores and raw materials, are valued at the weighted average cost, unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. Redundant and slow-moving inventories are identified and written down in this way. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in weighted average cost or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

### 1.10 Financial instruments

**Classification**

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

Financial instruments comprise of financial assets and liabilities in accordance with GRAP 104.

# Accounting Policies

### 1.10 Financial instruments (continued)

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

A residual interest is any contract that entitles the holder to an interest in the assets of an municipality after deducting all of its liabilities (i.e. net assets).

A financial liability is any liability that is a contractual obligation to deliver cash or another financial asset to another municipality; or exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the municipality.

Financial instruments, depending on its category, are initially measured at fair value, cost or amortised costs in accordance with GRAP 104. Transaction costs are only included in financial instruments that are initially measured at amortised costs.

**Initial recognition and measurement**

Financial instruments classified at fair value (fair value measurement considerations).

The best evidence of fair value is a quoted price in an active market.

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, broker, dealer, etc., and those prices represent actual and regularly occurring market transactions on an arm's length basis.

Short-term receivables and payables with no stated interest rate is be measured at the original invoice amount if the effect of discounting is immaterial.

Where there is no active market, the fair value is determined using a valuation technique such as;

- Additional textrecent arm's length market transaction;
- if available, reference to the current fair value of another instrument that is substantially the same;
- discounted cash flow analysis, discounting the future receipts (payments) of a financial instrument over the period of the contract, by using a market interest rate (adjusted for credit risk), to its present value.

<u>Financial instruments classified at cost</u>

If the fair value of a financial instrument cannot be reliably measured, it is measured at cost.

Financial assets at fair value are subsequently measured by using the fair value measurement considerations.

Any gains or losses due to changes in fair market value during the period are reported as gains or losses in the statement of financial performance, because such investments will usually be sold in the near future at their market value.

This effective interest rate method is used for these financial instruments. The interest rate used is necessary to discount the estimated stream of principal and interest cash flows through the expected life of the financial instrument to equal the amount recognised at initial recognition. The rate is then applied to the carrying amount at each reporting date to determine the interest expense or revenue for the period

<u>Financial instruments classified at amortised cost</u>

For financial instruments measured at amortised cost, the interest expense (for financial liabilities) or revenue (for financial assets) is calculated by using the effective interest rate method. The interest rate used is equal to the prevailing rate of return for financial instruments having substantially the same terms and characteristics of the municipality's financial instrument which include:

- the credit quality;
- the remaining term over which the contractual interest rate is fixed;
- the remaining period to repayment of the principal; and
- the currency (if applicable).

# Accounting Policies

### 1.10 Financial instruments (continued)

**Subsequent measurement**

Impairment and uncollectability of financial assets
At the end of each reporting period, the municipality assesses whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Impairment and uncollectability of financial assets
If there is objective evidence that an impairment loss on a financial asset has occurred, the loss must be recognised in surplus or deficit. Objective evidence that a financial asset or group of assets is impaired can be as a result of the occurrence of one or more of the following events:

(a)Significant financial difficulty experienced by the borrower/debtor;

- Delays in payments (including interest payments) or failure to pay/defaults;
- For economic or legal reasons, allowing disadvantaged customers who are experiencing financial difficulties to pay as and when they can. The municipality would not otherwise have considered this concession. For example, allowing disadvantaged customers to pay their account when they can due to the fact the water it supplies to the customer is a basic human right;
- It is probable that the borrower/debtor will enter sequestration (bankruptcy) or other financial reorganisation;
- The disappearance of an active market for that financial asset because of financial difficulties; or
- Observable data, for example historical data, indicating that there is a decrease in the estimated future cash flows that will be received (which can be measured reliably), from a group of financial assets (financial assets with similar credit risk characteristics grouped together) since the initial recognition of those assets. The decrease may not yet be identified for the individual financial assets in the group. These can include:
- the payment status of borrowers/debtors in the group has deteriorated (e.g. an increased number of delayed payments); or
- national or local economic conditions that are in line with non-payments in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers/debtors, or adverse changes in market conditions that affect the borrowers/debtors in the group)

(b) A municipality assesses financial assets individually, when assets are individually significant, and individually or collectively for financial assets that are not individually significant. Where no objective evidence of impairment exists for an individually assessed asset (whether individually significant or not), an municipality includes the assets in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

The carrying amount of a financial asset is reduced directly through the use of an allowance account. The impairment loss is recognised in the statement of financial performance.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the collective assessment of impairment.

As soon as information becomes available that specifically identifies losses on individually impaired assets in a group (that are collectively assessed for impairment), those assets are removed from the group and assessed individually for impairment.

For collective assessment of impairment, as indicated above, assets with similar credit risk characteristics are grouped together. The credit risk characteristics should be indicative of the debtors? ability to pay all amounts due according to the contractual terms.

**Receivables from exchange transactions**

Trade and other receivables are initially designated at fair value.

Short-term receivables with no stated interest rate is to be measured at the original invoice amount if the effect of discounting is immaterial.

**Payables from exchange transactions**

Financial liabilities consist of trade payables. They are categorised as financial liabilities held at fair value.

Short-term payables with no stated interest rate is to be measured at the original invoice amount if the effect of discounting is immaterial.

## Accounting Policies

**1.10 Financial instruments (continued)**

**Cash and cash equivalents**

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts 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, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are categorised as financial liabilities: other financial liabilities carried at amortised cost.

**Prepayments**

Prepaid expenses and advances are recognised in the statement of financial position when the payments are made and recognised in the statement of financial performance as and when the goods/services are received or the funds are utilised.

**Gains and losses**

Gains or losses can arise from both a financial asset and financial liability measured at fair value, at amortised cost or cost. Any gains and losses are recognised in the statement of financial performance.

Fair value - Changes in fair value will result in either a gain or loss.

Amortised costs and cost - gains and losses are recognised when derecognised, impaired or through the amortisation process.

**Derecognition**

**Financial assets**

The municipality derecognises a financial asset only when:

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

If the municipality has not transferred substantially all of the risks and rewards of ownership of the financial asset, it should continue to recognise the asset.

**Financial liabilities**

The municipality derecognises a financial liability only when:

- Discharges the liability (or part thereof) by paying the creditor, normally with cash, other financial liabilities, goods or services;
- Waives the debt or it is assumed by another entity by way of a non-exchange transaction. These transactions are accounted for by considering the requirements in GRAP 104 and GRAP 23 - Revenue from Non-exchange Transactions (Taxes and Transfers).
- Is legally released from primary responsibility for the liability (o part of it) either by process of law (expires) or by the creditor (cancelled). If the debtor has given a guarantee, this condition may still be met; or

**Impairment of financial assets**

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

# Accounting Policies

### 1.10 Financial instruments (continued)

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

**Offsetting**

Financial assets and liabilities are off-set and the net amount reported in the statement of financial position when there is a legally enforceable right to off-set the recognised amount, and there is an intention to settle on a net basis or to realise the asset and settle the liability simultaneously.

### 1.11 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance. The identified unauthorised expenditure is disclosed in the note to the annual financial statements in the year that it is incurred.

### 1.12 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), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the 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. The identified irregular expenditure is disclosed in the note to the annual financial statements in the year that it is incurred.

### 1.13 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful 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. The identified fruitless and wasteful expenditure is disclosed in the note to the annual financial statements in the year that it is incurred.

### 1.14 Provisions and Contigents

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made. Provisions are reviewed at reporting date and adjusted to reflect the current best estimate. Where the effect is material, non-current provisions are discounted to their present value using a pre-tax discount rate that reflects the market's current assessment of the time value of money, adjusted for risks specific to the liability (for example in the case of obligations for the rehabilitation of land).

The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

# Accounting Policies

### 1.14 Provisions and Contigents (continued)

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:
a) The municipality has a detailed formal plan for the restructuring identifying at least:
- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- when the plan will be implemented; and

The municipality 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.

### 1.15 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.

#### Finance leases - lessee

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or intangible assets subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangibles. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are accrued on a straight-line basis over the term of the relevant lease.

#### 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.

### 1.16 Revenue from exchange transactions

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

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

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

#### Measurement

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

### 1.16 Revenue from exchange transactions (continued)

**Sale of goods**

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

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

**Rendering of services**

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

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

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

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

**Interest Income**

Revenue arising from the use by others of municipal assets yielding interest shall be 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 shall be recognised on a time basis that takes into account the effective yield of interest.

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

### 1.17 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### Recognition

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

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

#### Measurement

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

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

### 1.18 Events after reporting date

Recognised amounts in the financial statements are adjusted to reflect events arising after the balance sheet date that provide evidence of conditions that existed at the Balance Sheet date. Events after the Balance Sheet date that are indicative of conditions that arose after the Balance Sheet date are dealt with by way of a note to the Financial Statements.

### 1.19 Commitments

A commitment arises when a decision is made to incur a liability e.g. purchase order, delivery schedules or contract for construction of infrastructure assets. A commitment becomes a liability when the intention to agree to an outflow of resources outflow of resources becomes a present obligation.

The commitments are not recognised as a liability in the statement of financial position but are disclosed in the notes to the financial statements.

# Accounting Policies

### 1.20 Employee benefits

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

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

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

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

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

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

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

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

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

**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 recognise 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 recognise 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 measure 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 recognise 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.

## Accounting Policies

### 1.20 Employee benefits (continued)

**Post-employment benefits**

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

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

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

**Actuarial assumptions**

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

**Long term service awards and accumulated leave days**

Long term service

Employees qualify for additional leave for various period of uninterrupted service in accordance with SALGBC condition of service. The long term service award measured in accordance with GRAP 25 through an actuarial valuation.

**Accumulated leave days**

Accumulated leave benefit accrues to employees unto maximum of 48 leave days. The benefits are paid in the events of death, disability, retrenchment or/and retirement. Employees who have leave days in excess of the 48 days for periods, before the conditions of service came to effect, are measured in accordance with GRAP 25 through an actuarial valuation.

### 1.21 Change in accounting policy, accounting estimates and prior period errors

Change in accounting estimate

Change in accounting estimate is an adjustment of the carrying amount of an asset or a liability, or the amount of the periodic consumption of an asset, that results from the assessment of the present status of, and expected future benefits and obligations associated with, assets and liabilities.

Changes in accounting estimates result from new information or new developments and, accordingly, are not corrections of errors. Any changes to the relevant financial items (associated with assets and liabilities) are made prospectively.

### 1.21 Change in accounting policy, accounting estimates and prior period errors (continued)

Change in accounting policy

Accounting policies are the specific principles, bases, conventions, rules and practices applied by an municipality in preparing and presenting financial statements. Any changes to these policies arising from new or amended GRAP standards will beapplied either retrospectively or prospectively if transitional provisions exists.

Prior period errors

Prior period errors are omissions from, and misstatements in, the municipality's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that;
(a) was available when financial statements for those periods were authorised for issue; and
(b) could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.
Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

A prior period error is corrected by retrospective restatement, except to the extent that it is impracticable to determine the period-specific or cumulative effect of the error.

When it is impracticable to determine the period-specific effects of an error on comparative information for one or more prior periods presented, the entity shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable (which may be the current period).

When it is impracticable to determine the cumulative effect, at the beginning of the current period, of an error on all prior periods, the entity shall restate the comparative information to correct the error prospectively from the earliest date practicable.

### 1.22 Related parties

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

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

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

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

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

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

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

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

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

## Accounting Policies

### 1.23 Budget information

The annual budget figures have been prepared in accordance with the GRAP standards, and are consistent with the accounting policies adopted by the Council for the preparation of these financial statements. The amounts are scheduled as a separate additional financial statement, called the statement of comparison of budget and actual amounts. Explanatory comments are provided in the notes to the annual financial statements.

The annual budget figures included in the financial statements are for the Municipality and these figures are those approved by the Council at the beginning and during the year.

The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives.

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

The audited 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 audited financial statements as the recommended disclosure when the audited financial statements and the budget are on the same basis of accounting as determined by National Treasury and requirements of GRAP 25.

### 1.24 Value added tax

VAT is accounted for on an accrual basis and registered for on the cash basis.

### 1.25 Significant judgements and sources of estimation uncertainty

In preparing the audited financial statements, management is required to make estimates and assumptions that affect the amounts represented in the audited 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 audited financial statements. Significant judgements include:

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

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

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

**Available-for-sale financial assets**

The municipality follows the guidance of IAS 39 to determine when an available-for-sale financial asset is impaired. This determination requires significant judgment. In making this judgment, the municipality evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

If all of the declines in fair value below cost were considered significant or prolonged, the municipality would suffer an additional deficit of - in its 2021 audited financial statements, being a reclassification adjustment of the fair value adjustments previously recognised in other comprehensive income and accumulated in equity on the impaired available-for-sale financial assets to surplus or deficit.

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

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

# Accounting Policies

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

#### Fair value estimation

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

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

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

The carrying amount of available-for-sale financial assets would be an estimated - lower or - higher were the discounted rate used in the discount cash flow analysis to differ by 10% from management's estimates.

#### Impairment testing

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

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

#### Provisions

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

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

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

#### Post retirement benefits

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

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

# Accounting Policies

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 10.

**Effective interest rate**

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

**Allowance for doubtful debts**

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

### 1.26 Accounting by principals and agents

**Identification**

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

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

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

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

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

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

**Binding arrangement**

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

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

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

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

The municipality is an agent when, in relation to transactions with third parties, all three of the following criteria are present:
- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

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

**Recognition**

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

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

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

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

### 1.27 Commission expense

Commission expense is accounted for on an accrual basis.

### 1.28 Distribution loss

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

# Notes to the Audited Financial Statements

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

## 2. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
| --- | --- | --- |
| First National Bank (Primary Bank Account) | 2 362 363 | 1 452 712 |
| Investment Accounts | 351 526 508 | 359 321 533 |
| Cash on hand | 15 099 | 12 532 |
| | **353 903 970** | **360 786 777** |

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | Cash book balances | |
| --- | --- | --- | --- | --- |
| | 30 June 2021 | 30 June 2020 | 30 June 2021 | 30 June 2020 |
| FNB BANK - Current Account - 620-055-56339 | 2 380 962 | 1 445 291 | 2 362 363 | 1 452 712 |

**Summary of investments held**

| | | |
| --- | --- | --- |
| First National Bank - Call Account | 303 223 | 509 660 |
| Nedbank Deposit Account | 236 676 763 | 135 541 003 |
| First National Bank - Fixed Deposit 1 | - | 149 692 888 |
| Standard Bank Call | 23 217 941 | 73 577 982 |
| ABSA | 91 328 581 | - |
| | **351 526 508** | **359 321 533** |

Included in FNB account is a guarantee to Eskom amounting to R294 600.

| | | |
| --- | --- | --- |
| Guarantee | 294 600 | 294 600 |

## 3. Receivables from non-exchange transactions

| | | |
| --- | --- | --- |
| Receivables from non-exchange revenue | 33 709 289 | 34 308 762 |
| Provision - Receivables from non-exchange revenue | (2 291 325) | (2 303 325) |
| | **31 417 964** | **32 005 437** |

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

| | | |
| --- | --- | --- |
| Opening balance | 2 303 325 | 2 315 325 |
| Reversal of impairment | (12 000) | (12 000) |
| | **2 291 325** | **2 303 325** |

| **Included in receivabes from non-exchange transactions** | | |
| --- | --- | --- |
| Local Municipalities-Unspent Grants | 998 867 | 1 335 709 |
| Blouberg Municipality - Refunds for water payments | 1 693 118 | 2 812 863 |
| Molemole Municipality - Refunds for water payments | 360 244 | 742 017 |
| Lepelle Nkumpi Municipality - Refunds for water payments | 26 127 138 | 27 537 847 |
| Other debtors | 4 529 924 | 1 880 327 |
| | **33 709 291** | **34 308 763** |

## 4. Inventories

| | | |
| --- | --- | --- |
| Consumable stores | 774 464 | 543 389 |
| Maintenance materials | 2 143 877 | 2 489 304 |
| Water for distribution | 229 032 | 240 194 |
| | **3 147 373** | **3 272 887** |

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

### 4. Inventories (continued)

| | | |
|---|---|---|
| Inventories recognised as an expense during the year | 80 372 232 | 79 050 968 |

No inventories were pledged as collateral.

No inventories were written off during the year.

### 5. Prepayments

| | | |
|---|---|---|
| Prepaid expenses | 2 714 099 | 3 204 938 |

2020, Advanced payment was made to SALGA for 2020/21 membership fees.

2021, Advance payments made to SAGA for 2021/2022 membership fees, East and West Investment for rental payments and Alihlolege

| **Prepaid expenses include the following** | | |
|---|---|---|
| Alihlolege | 64 583 | - |
| East and west Investment | 426 914 | - |
| SALGA | 2 222 602 | 3 204 938 |
| | **2 714 099** | **3 204 938** |

### 6. VAT receivable

| | | |
|---|---|---|
| VAT | 29 256 942 | 4 519 654 |

VAT is accounted for on an accrual basis and registered for on a cash basis.
VAT refunds are due from February 2021 to June 2021.

### 7. Property, plant and equipment

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 12 407 500 | - | 12 407 500 | 12 407 500 | - | 12 407 500 |
| Plant and machinery | 20 196 540 | (8 048 488) | 12 148 052 | 18 225 862 | (6 657 691) | 11 568 171 |
| Furniture and fixtures | 15 267 769 | (6 976 773) | 8 290 996 | 13 753 349 | (6 197 870) | 7 555 479 |
| Motor vehicles | 80 412 945 | (26 601 111) | 53 811 834 | 62 236 946 | (25 541 227) | 36 695 719 |
| IT equipment | 16 029 219 | (5 785 428) | 10 243 791 | 16 772 032 | (5 168 212) | 11 603 820 |
| Infrastructure | 2 641 749 407 | (636 100 393) | 2 005 649 014 | 2 511 943 646 | (592 388 447) | 1 919 555 199 |
| Community | 90 917 623 | (32 510 933) | 58 406 690 | 87 821 885 | (29 956 188) | 57 865 697 |
| Assets under construction | 992 220 961 | - | 992 220 961 | 796 874 109 | - | 796 874 109 |
| Leased Assets | 4 139 275 | (563 244) | 3 576 031 | 5 295 742 | (5 295 742) | - |
| **Total** | **3 873 341 239** | **(716 586 370)** | **3 156 754 869** | **3 525 331 071** | **(671 205 377)** | **2 854 125 694** |

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

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

| | Opening balance | Additions | Disposals | Transfers received | Transfers made | Derecognition | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|---|---|
| Land | 12 407 500 | - | - | - | - | - | - | - | 12 407 500 |
| Plant and machinery | 11 568 171 | 2 208 303 | (184 333) | - | - | - | (1 444 089) | - | 12 148 052 |
| Furniture and fixtures | 7 555 479 | 1 964 270 | (135 834) | - | - | - | (1 092 919) | - | 8 290 996 |
| Motor vehicles | 36 695 719 | 22 778 898 | (2 096 176) | - | - | - | (3 566 607) | - | 53 811 834 |
| IT equipment | 11 603 820 | 497 611 | (693 599) | - | - | - | (1 164 041) | - | 10 243 791 |
| Infrastructure | 1 919 555 199 | 38 177 189 | (7 386 370) | - | 140 813 306 | (12 119 930) | (59 535 074) | (13 855 306) | 2 005 649 014 |
| Community | 57 865 697 | 611 311 | (6 566) | - | 2 494 035 | - | (2 436 247) | (121 540) | 58 406 690 |
| Assets under construction | 796 874 109 | 342 944 772 | - | - | (143 307 341) | (4 290 579) | - | - | 992 220 961 |
| Leased Assets | - | 4 139 275 | - | - | - | - | (563 244) | - | 3 576 031 |
| | **2 854 125 694** | **413 321 629** | **(10 502 878)** | **-** | **-** | **(16 410 509)** | **(69 802 221)** | **(13 976 846)** | **3 156 754 869** |

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

| | Opening balance | Additions | Disposals | Transfers received | Transfers made | Derecognition | Depreciation | Impairment loss | Total |
|---|---|---|---|---|---|---|---|---|---|
| Land | 11 861 500 | - | - | 546 000 | - | - | - | - | 12 407 500 |
| Plant and machinery | 10 197 358 | 2 640 043 | - | - | - | - | (1 269 230) | - | 11 568 171 |
| Furniture and fixtures | 6 150 563 | 2 085 798 | - | - | - | - | (680 882) | - | 7 555 479 |
| Motor vehicles | 40 230 158 | - | (159 754) | - | - | - | (3 374 685) | - | 36 695 719 |
| IT equipment | 11 799 029 | 851 872 | - | - | - | - | (1 047 081) | - | 11 603 820 |
| Infrastructure | 1 878 497 956 | 25 678 151 | - | - | 82 580 465 | - | (57 735 741) | (9 465 632) | 1 919 555 199 |
| Community | 57 283 619 | 2 254 799 | - | - | 865 478 | - | (2 383 825) | (154 374) | 57 865 697 |
| Assets under construction | 512 313 805 | 368 710 350 | - | - | (83 445 943) | (704 103) | - | - | 796 874 109 |
| Leased Assets | 1 765 247 | - | - | - | - | - | (1 765 247) | - | - |
| | **2 530 099 235** | **402 221 013** | **(159 754)** | **546 000** | **-** | **(704 103)** | **(68 256 691)** | **(9 620 006)** | **2 854 125 694** |

# Notes to the Audited Financial Statements

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

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

**Pledged as security**

No property, plant and equipments are pledged as collaterals.

**Property, plant and equipment taking longer to complete than expected**

| Cumulative expenditure recognised in the carrying value of property, plant and equipment | 2021 | 2020 |
| --- | --- | --- |
| Infrastructure - Projects are on planning stage | 93 318 136 | 40 002 147 |
| Community - Projects are on planning stage | 2 026 521 | 2 837 559 |
| | **95 344 657** | **42 839 706** |

**Reconciliation of Work-in-Progress 2021**

| | Infrastructure Assets | Community Assets | Total Assets |
| --- | --- | --- | --- |
| Opening balance | 752 014 041 | 44 860 068 | 796 874 109 |
| Additions/capital expenditure | 341 585 425 | 1 359 347 | 342 944 772 |
| Derecognition of assets | (4 290 579) | - | (4 290 579) |
| Transferred to completed items | (143 307 341) | - | (143 307 341) |
| | **946 001 546** | **46 219 415** | **992 220 961** |

**Reconciliation of Work-in-Progress 2020**

| | Infrastructure Assets | Community Assets | Total Assets |
| --- | --- | --- | --- |
| Opening balance | 476 447 766 | 36 494 541 | 512 942 307 |
| Prior year adjustment | (1 332 604) | - | (1 332 604) |
| Additions/capital expenditure | 360 344 822 | 8 365 527 | 368 710 349 |
| Reclassification | (865 478) | 865 478 | - |
| Transferred to completed items | (82 580 465) | (865 478) | (83 445 943) |
| | **752 014 041** | **44 860 068** | **796 874 109** |

**8. Intangible assets**

| | 2021 | | | 2020 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 8 301 129 | (3 804 513) | 4 496 616 | 6 910 533 | (2 960 589) | 3 949 944 |

**Reconciliation of intangible assets - 2021**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software | 3 949 944 | 1 390 596 | (843 924) | 4 496 616 |

**Reconciliation of intangible assets - 2020**

| | Opening balance | Additions | Amortisation | Total |
|---|---|---|---|---|
| Computer software | 6 545 908 | 441 986 | (3 037 950) | 3 949 944 |

**Pledged as security**

No intangible assets are pledged as collaterals.

**9. Non-living resources**

**Entity as custodian**

The municipality is responsible for the provision of water in terms of section 84(1)(b) of Municipal Structures Act 117 of 1998.

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

The municipality provide water services through water bought from Lepelle northern water as well as water from own drilled boreholes.

**Nature and types of non-living resources for which the entity is responsible**

Water not yet extracted from the boreholes.

**Liabilities and/or contingent liabilities that arise from the non-living resources**

No liabilities arises from non-living resources.

## 10. Employee benefit obligations

**Defined benefit plan**

**Post retirement medical aid plan**

The accumulated defined benefit obligation in respect of the post-retirement medical contributions are provided, based on calculations of independent actuaries, using methods and assumptions consistent with GRAP 25 (Employee Benefits) as follows:

| | 2021 | 2020 |
|---|---|---|
| **Movement in the employee health-care liability** | | |
| Liability as at 1 July | 5 744 000 | 4 222 000 |
| Benefits paid | (507 000) | (595 307) |
| Current Service Cost | - | - |
| Interest | 672 000 | 401 000 |
| Acturial losses/ (gain) | (26 000) | 1 716 307 |
| | **5 883 000** | **5 744 000** |

| | 2021 | 2020 |
|---|---|---|
| Current portion of liability | 501 000 | 672 000 |
| Non-current portion of liability | 5 382 000 | 5 072 000 |
| | **5 883 000** | **5 744 000** |

| | 2021 | 2020 |
|---|---|---|
| **Amounts recognised in the annual financial statements** | | |
| Current service cost | - | - |
| Interest cost | 672 000 | 401 000 |
| Past service cost | - | - |
| Acturial losses/(gains) | (26 000) | 1 716 307 |
| | **646 000** | **2 117 307** |

Sensitivity analysis

As mentioned in the introduction of this report, the valuation is only an estimate of the cost of providing post-employment medical aid benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables.

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

-20% increase/decrease in the assumed level of mortality;
-1% increase/decrease in the Medical aid inflation.

Mortality rate

### 10. Employee benefit obligations (continued)

Deviations from the assumed level of mortality experience of the current employees and the continuation members (pensioners) will have a large impact on the actual cost to the Municipality. If the actual rates of mortality turns out higher than the rates assumed in the valuation basis, the cost to the Municipality in the form of subsidies will reduce and vice versa.

We have illustrated the effect of higher and lower mortality rates by increasing and decreasing the mortality rates by 20%. The effect is as follows:

| | -20% Mortality rate | Valuation Assumption | +20% Mortality rate |
|---|---|---|---|
| Total Accrued Liability | 6 391 000 | 5 883 000 | 5 481 000 |
| Interest Cost | 555 000 | 501 000 | 460 000 |
| Service Cost | - | - | - |
| | **6 946 000** | **6 384 000** | **5 941 000** |

Medical aid inflation

The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

We have tested the effect of a 2% p.a. change in the medical aid inflation assumption. The effect is as follows:

| | -1% Medical aid inflation | Valuation Assumption | +1% Medical aid inflation |
|---|---|---|---|
| Total Accrued Liability | 5 414 000 | 5 883 000 | 6 430 000 |
| Interest Cost | 453 000 | 501 000 | 558 000 |
| Service Cost | - | - | - |
| | **5 867 000** | **6 384 000** | **6 988 000** |

Actuarial Loss/(Gain)

The combined Accrued Liability in respect of Post-employment medical aid liability is built-up as follows:

| | Current Valuation date 30 June 2021 | 1 Year Following the Valuation Date | 2 Years Following the Valuation Date | 3 Years Following the Valuation Date |
|---|---|---|---|---|
| PV of the obligation as at the previous valuation date | 5 744 000 | 5 883 000 | 5 857 000 | 5 848 000 |
| Current Service Cost | - | - | - | - |
| Interest Cost | 672 000 | 501 000 | 524 000 | 546 000 |
| Benefits Paid | (507 000) | (527 000) | (533 000) | (544 000) |
| Actuarial Loss / (Gain) | (26 000) | - | - | - |
| | **5 883 000** | **5 857 000** | **5 848 000** | **5 850 000** |

Membership Data

According to the information provided, the number of members entitled to receive post-employment medical aid subsidies from the Municipality were:

| **Category** | 30-06-2021 Valuation | 30-06-2020 Valuation |
|---|---|---|
| Current (In Service) Members | - | - |
| Continuation Members (Pensioners) | 7 | 7 |
| | **7** | **7** |

**10. Employee benefit obligations (continued)**

Accrued Contractual Liability

The figures below reflect the total value of the accrued contractual liability of the Municipality in respect of post-employment medical aid benefits offered to employees:

| **Category** | 30-06-2021 Valuation | 30-06-2020 Valuation |
| --- | --- | --- |
| Current (In Service) Members | - | - |
| Continuation Members (Pensioners) | 5 883 000 | 5 744 000 |
| | **5 883 000** | **5 744 000** |

Interest and Service Costs

| **Category** | 30-06-2021 Valuation To be used in the 30 June 2021 Actuarial Loss/(Gain) calculation | 30-06-2020 Valuation To be used in the 30 June 2020 Actuarial Loss/(Gain) calculation |
| --- | --- | --- |
| Interest Cost | 501 000 | 672 000 |
| Current Service Cost | - | - |
| | **501 000** | **672 000** |

Valuation Method

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

Post-employment Medical Aid Liabilities

The expected value of each employee and their spouse's future medical aid subsidies is projected by allowing for future medical inflation. The calculated values are then discounted at the assumed discount interest rate to the present date of valuation (calculation). We also allowed for mortality, retirements and withdrawals from service as set out below. The accrued liability is determined on the basis that each employee's medical aid benefit accrues uniformly over the working life of an employee up until retirement. Further it is assumed that the current policy for awarding medical aid subsidies remains unchanged in the future. We assumed that 100% of all active members on medical aid will remain on medical aid once they retire. We also assumed that all active members will remain on the same medical aid option at retirement.

Valuation of Assets

As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not consider any assets as part of our valuation.

Valuation Assumptions

In estimating the liability for post-employment medical aid benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

APN 301 states that the assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

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

## 10. Employee benefit obligations (continued)

The two most important financial variables used in our valuation are the discount- and medical aid inflation rates. We have assumed the following values for these variables:

| **Financial Variable** | Assumed Value 30-06-2021(Current Valuation) | Assumed Value 30-06-2020(Preceding Valuation) |
| --- | --- | --- |
| Discount Rate | Yield Curve | Yield Curve |
| CPI (Consumer Price Inflation) | Difference between nominal and yield curves | Difference between nominal and yield curves |
| Medical Aid Contribution Inflation | CPI+1% | CPI+1% |
| Net Effective Discount Rate | Yield curve based** | Yield curve based** |

Discount Rate

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

"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. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

*Statement of Financial Position (herein referred to as the "balance sheet").

We used the nominal and real zero curves as at **30 June 2020** as supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period

Medical Aid Inflation

The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

South Africa has experienced high health care cost inflation in recent years. The annualised compound rates of increase for the last ten years show that registered medical aid schemes contribution inflation outstripped general CPI by almost 3% year on year. We do not consider these increases to be sustainable and have assumed that medical aid contribution increases would outstrip general inflation by 1% per annum over the foreseeable future.

Average Retirement Age

The average retirement age for all active employees was assumed to be **58** years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be **65** years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS.

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

### 10. Employee benefit obligations (continued)

Spouses and Dependents

We assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that **90%** of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be **five** years younger than their male spouses at retirement and vice versa.

**Long service award**

The municipality provides long-service awards to its permanent employees

The benefit of long-service awards is provided in the form of annual leave and a gift to a certain monetary value.

In accordance with prevailing legislation, the defined benefits funds are actuarially valued at intervals of not more than two years. The Projected Unit Credit valuation method is used. The latest valuation was performed as at 30 June 2020 by ZAQ Consultants and Actuaries.

The municipality has no legal obligations to settle this liability with any immediate contributions or additional once-off contributions.

The accumulated defined benefit obligation in respect of the long-service awards are provided, based on calculations of independent actuaries, using methods and assumptions consistent with GRAP 25 (Employee Benefits) as follows:

| **Movement in the long-service award liability** | | |
| --- | --- | --- |
| Liability as at 1 July | 12 756 000 | 12 836 000 |
| Benefits paid | (2 509 000) | (2 181 099) |
| Current service cost | 1 142 000 | 1 149 000 |
| Interest | 1 506 000 | 1 263 000 |
| Acturial losses/ (gains) | 5 527 000 | (310 901) |
| | **18 422 000** | **12 756 000** |

| | | |
| --- | --- | --- |
| Current portion of liability | 2 962 000 | 2 648 000 |
| Non-current portion of liability | 15 460 000 | 10 108 000 |
| | **18 422 000** | **12 756 000** |

| **Expense recognised in Statement of Financial Performance** | | |
| --- | --- | --- |
| Current service cost | 1 142 000 | 1 149 000 |
| Interest cost | 1 506 000 | 1 263 000 |
| Past service cost | - | - |
| Acturial losses/ (gains) | - | (310 901) |
| | **2 648 000** | **2 101 099** |

| **Changes in the value of obligation** | Current Valuation date 30 June 2021 | 1 Year following the Valuation Date | 2 Years following the Valuation Date | 3 Years following the Valuation Date |
| --- | --- | --- | --- | --- |
| Liability recognised in the balance sheet | 12 756 000 | 18 422 000 | 19 698 000 | 19 433 000 |
| Current service cost | 1 142 000 | 1 452 000 | 1 303 000 | 1 126 000 |
| Interest cost | 1 506 000 | 1 510 000 | 1 592 000 | 1 605 000 |
| Benefits paid | (2 509 000) | (1 686 000) | (3 160 000) | (2 579 000) |
| Acturial Loss/ (Gain) | 5 527 000 | - | - | - |
| | **18 422 000** | **19 698 000** | **19 433 000** | **19 585 000** |

Membership data

According to the information provided, the number of members entitled to receive long service leave awards from the municipality were;

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

### 10. Employee benefit obligations (continued)

| Gender | Number of active employees | Salary weighted average age (Years) | Weighted average past service (Years) |
|---|---|---|---|
| Male | 308 | 47,18 | 14,14 |
| Female | 215 | 43,57 | 12,08 |

Long Service Awards Liabilities

| Category | 30-06-2021 Valuation | 30-06-2020 Valuation |
|---|---|---|
| Accrued liability | 18 422 000 | 12 756 000 |

Interest and service costs

| Category | 30-06-2021 Valuation. To be used in the 30 June 2021 Actuarial Loss/(Gain) calculation | 30-06-2020 Valuation. To be used in the 30 June 2020 Actuarial Loss/(Gain) calculation |
|---|---|---|
| Interest cost | 1 510 000 | 1 506 000 |
| Current service cost | 1 452 000 | 1 142 000 |
| | **2 962 000** | **2 648 000** |

Valuation Method

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

Long Service Awards Liabilities

Long service benefits are awarded in the form of a number of leave days awarded once an employee has completed a certain number of years in service. We have converted the awarded leave days to a percentage of annual salary by assuming there are 250 working days per year. The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth. The table below contains a summary of the benefit policy:

| Completed Years of Service | Total Long Service Benefit Award (% of Annual Salary) | Formula used to calculate Total Long Service Benefit Award |
|---|---|---|
| 10 | 4% | (10/250)*Annual Salary |
| 15 | 8% | (20/250)*Annual Salary |
| 20, 25, 30, 35, 40 and 45 | 12% | (30/250)*Annual Salary |

The calculated award values are then discounted at the assumed discount interest rate to the date of calculation. We also allowed for mortality, retirements and withdrawals from service as set out in the next section of this report.

### 10. Employee benefit obligations (continued)

The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable. Further it is assumed that the current policy for awarding long service awards remains unchanged in the future.

Valuation of Assets

As at the valuation date, the long service leave award liability of the Municipality was unfunded, i.e. no dedicated assets have been set aside to meet this liability. We therefore did not value any assets as part of our valuation.

In estimating the liability for long service leave benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the valuation and it is very important to monitor how this difference changes from one valuation to the next. The most relevant actuarial assumptions used in this valuation are discussed below.

Financial Variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

| **Financial Variable** | Assumed Value 30-06-2021 (Current Valuation) | Assumed Value at 30-06-2020 (Preceding Valuation) |
|---|---|---|
| Discount Rate | Yield Curve | Yield Curve |
| CPI (Consumer Price Inflation) | Difference between nominal and real yield curve | Difference between nominal and real yield curve |
| Normal Salary Increase Rate | Equal to CPI+1% | Equal to CPI+1% |
| Net Effective Discount Rate | Yield Curve Based** | Yield Curve Based** |

Discount Rate

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

"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. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve."

*Statement of Financial Position (herein referred to as the "balance sheet").

We use the nominal and real zero curves as at **30 June 2020** supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years. Previously only one discount rate was used to value all the liabilities.

* The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

### 10. Employee benefit obligations (continued)

Normal Salary Inflation Rate

We have derived the underlying future rate of consumer price index inflation (CPI inflation) from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. Our assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2019 of 6.25**%.** The next salary increase was assumed to take place on 01 July 2021.

In addition to the normal salary inflation rate, we assumed the following promotional salary increases:

Promotional Salary Increase Rates

| Age band | Promotional Increase |
| --- | --- |
| 20-24 | 5 % |
| 25-29 | 4 % |
| 30-34 | 3 % |
| 35-39 | 2 % |
| 40-44 | 1 % |
| 45 and over | - % |
| | **15 %** |

Average Retirement Age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements.

Normal Retirement Age

The normal retirement age (NRA) for all active employees was assumed to be **65** years.

Mortality Rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry.

Withdrawal Decrements

A table setting out the assumed rates of withdrawal from service is set out below:

| Age Band | Withdrawal Rate Males | Withdrawal Rate Females |
| --- | --- | --- |
| 20 - 24 | 16 % | 24 % |
| 25 - 29 | 12 % | 18 % |
| 30 - 34 | 10 % | 15 % |
| 35 - 39 | 8 % | 10 % |
| 40 - 44 | 6 % | 6 % |
| 45 - 49 | 4 % | 4 % |
| 50 - 54 | 2 % | 2 % |
| 55 - 59 | 1 % | 1 % |
| 60 + | - % | - % |
| | **59 %** | **80 %** |

Membership Data

The information below is based on the membership data received from the Municipality.

Eligible male employees

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

### 10. Employee benefit obligations (continued)

| Age band | Number of employees | Average annual salary | Salary weighted average past service (Years) | Average accrued liability |
|---|---|---|---|---|
| 20 - 29 | 2 | 281 058 | 2,5 | 5 247 |
| 30 - 39 | 71 | 311 747 | 7,6 | 26 800 |
| 40 - 49 | 83 | 369 001 | 10,9 | 45 350 |
| 50 - 59 | 125 | 278 029 | 20,0 | 29 936 |
| 60 + | 27 | 273 113 | 29,9 | 6 158 |
| | **308** | **354 475** | | **41 101** |

Eligible female employees

| Age band | Number of employees | Average annual salary | Salary weighted average past service (Years) | Average accrued liability |
|---|---|---|---|---|
| 30 - 39 | 73 | 350 517 | 8,2 | 32 249 |
| 40 - 49 | 88 | 400 830 | 12,4 | 55 021 |
| 50 - 59 | 41 | 299 646 | 22,8 | 37 870 |
| 60 + | 13 | 235 830 | 28.7 | 6 774 |
| | **215** | **354 475** | | **41 101** |

Total eligible employees

| Age band | Number of employees | Average annual salary | Salary weighted average past service (Years) | Average accrued liability |
|---|---|---|---|---|
| 20 - 29 | 2 | 281 058 | 2,5 | 5 247 |
| 30 - 39 | 144 | 331 401 | 7,9 | 29 562 |
| 40 - 49 | 171 | 385 381 | 11,7 | 50 327 |
| 50 - 59 | 166 | 283 368 | 20,7 | 31 896 |
| 60 + | 40 | 260 996 | 29,6 | 6 358 |
| | **523** | **328 228** | | **35 225** |

Interest Cost

The Interest Cost represents the accrual of interest on the Accrued Defined Benefit Obligation, allowing for benefit payments, over the corresponding year. This arises because the long service benefits are one year closer to payment. This item should be accounted for in the Statement of profit or loss and other comprehensive income (herein after referred to as the "income statement") according to GRAP 25.

Current Service Cost

The Current Service Cost reflects the additional liability that is expected to accrue in respect of in service members' service over the corresponding year. This item should be accounted for in the income statement according to GRAP 25.

Sensitivity Analysis

As mentioned in the introduction of this report, the valuation is only an estimate of the cost of providing Long service leave award benefits. The actual cost to the Municipality will be dependent on actual future levels of assumed variables and the demographic profile of the membership.

In order to illustrate the sensitivity of our results to changes in certain key variables, we have recalculated the liabilities using the following assumptions:

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

**10. Employee benefit obligations (continued)**

-20% increase/decrease in the assumed level of withdrawal rates;
-1% increase/decrease in the Normal Salary cost inflation

Withdrawal rate

Deviations from the assumed level of withdrawal experience of the eligible employees will have a large impact on the actual cost to the Municipality. If the actual rates of withdrawal turns out to be higher than the rates assumed in the valuation basis, then the cost to the Municipality in the form of benefits will reduce and vice versa

We have illustrated the effect of higher and lower withdrawal rates by increasing and decreasing the withdrawal rates by 20%. The effect is as follows:

| | -20% Withdrawal rate | Valuation Assumption | +20% Withdrawal rate |
|---|---|---|---|
| Total Accrued Liability | 19 242 000 | 18 422 000 | 17 668 000 |
| Current Service Cost | 1 542 000 | 1 452 000 | 1 371 000 |
| Interest Cost | 1 592 000 | 1 510 000 | 1 436 000 |
| | **22 376 000** | **21 384 000** | **20 475 000** |

Normal salary inflation

The cost of the long service awards is dependent on the increase in the annual salaries paid to employees. The rate at which salaries increase will thus have a direct effect on the liability of future employees.

We have tested the effect of a 1% p.a. change in the Normal Salary inflation assumption. The effect is as follows:

| | -1% Normal salary inflation | Valuation Assumption | +1% Normal salary inflation |
|---|---|---|---|
| Total Accrued Liability | 17 524 000 | 18 422 000 | 19 420 000 |
| Current Service Cost | 1 363 000 | 1 452 000 | 1 552 000 |
| Interest Cost | 1 415 000 | 1 510 000 | 1 617 000 |
| | **20 302 000** | **21 384 000** | **22 589 000** |

**Long-term leave**

The municipality, in recognition of services rendered, grants employees 24 working days leave per year.

This leave is cumulative up to a limit of 48 working days.

There is no discounting applied to the calculation of the provision and the amount is based on the estimated 1 July salaries after allowing for an estimated salary increase. The provision is split between that which is expected to be taken within 12 months of the valuation date and that which will be taken after the 12 months.

| **Movement in the leave provision** | | |
|---|---|---|
| Liability as at 1 July | 40 445 266 | 34 736 749 |
| Annual leave forfeited | (142 621) | (185 256) |
| Net accrued leave days over the years | 7 658 882 | 5 893 773 |
| Benefits paid | (1 527 154) | - |
| | **46 434 373** | **40 445 266** |

| | | |
|---|---|---|
| Current portion of liability | 4 338 476 | 2 852 218 |
| Non-current portion of liability | 42 095 898 | 37 593 048 |
| | **46 434 374** | **40 445 266** |

Leave Days Provisional Liabilities

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

**10. Employee benefit obligations (continued)**

There is no standard acturial formula that prescribes the way in which the accrued leave days balance should be broken down betweeen short term and long-term components. We recommend that the municipality follow an approach that is consistent with its past experience.

No discontinuing is applied to the calculation of the annual leave provisions. The leave provision is based on the estimated 1 July 2020 salaries after allowing for an estimated salary increase of 6%. The provision is split between that which is expected to be taken within 12 months of the valuation date (short-term portion) and that which will be taken after 30 June 2020 (long-term portion)

In order to calculate the short term and long-term components of the accrued leave days provisional liability we assumed that;

1. Employees reaching the expected retirement age of 63 over the coming year would cash-in their accrued leave balances in full;

2. Employees resigning from service would cash-in their accrued leave days balances in full;

3. Other employees remaining in service would take their full 24 leave days in the coming year.

We assume that all employees will take up leave to avoid forfeiture of leave days. Employees that resign or retire over the coming will have their leave balance cashed on resignation/ retirement. We assumed 250 working days per year for the purposes of calculating the value of the accrued benefit. The current portion of the accrued leave also takes into account withdrawals from service over the next 12 months according to the table below.

Withdrawal decrements

| **Age band** | Withdrawal Rate Males | Withdrawal Rate Females |
|---|---|---|
| 20-24 | 16 % | 24 % |
| 25-29 | 12 % | 18 % |
| 30-34 | 10 % | 15 % |
| 35-39 | 8 % | 10 % |
| 40-44 | 6 % | 6 % |
| 45-49 | 4 % | 4 % |
| 50-54 | 2 % | 2 % |
| 55-59 | 1 % | 1 % |
| 60+ | - % | - % |
| | **59 %** | **80 %** |

Membership data

The information below is based on the membership data received from the municipality.

According to the information provided, the number of members entitled to receive leave days from the municipality were:

| **Gender** | Number of active employees | Salary weighted average age (Years) | Average Annual Salary |
|---|---|---|---|
| Male | 325 | 82,81 | 459 052 |
| Female | 223 | 61,31 | 459 052 |
| | **548** | | **918 104** |

| **Reconciliation for employee benefit obligations - 2021** | Opening balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Performance | 6 637 970 | 6 667 000 | (6 410 999) | 6 893 971 |

### 10. Employee benefit obligations (continued)

| | | | | |
|---|---|---|---|---|
| Provision for leave | 40 445 266 | 7 658 882 | (1 669 775) | 46 434 373 |
| Post employment medical benefits | 5 744 000 | 672 000 | (533 000) | 5 883 000 |
| Long service awards | 12 756 000 | 8 175 236 | (2 509 235) | 18 422 001 |
| | **65 583 236** | **23 173 118** | **(11 123 009)** | **77 633 345** |

| **Reconciliation for empoyee benefit obligations - 2020** | Opening balance | Additions | Utilised during the year | Total |
|---|---|---|---|---|
| Performance | 6 069 534 | 6 411 000 | (5 842 564) | 6 637 970 |
| Provision for leave | 34 736 748 | 5 708 518 | - | 40 445 266 |
| Post employment medical benefits | 4 222 000 | 2 117 307 | (595 307) | 5 744 000 |
| Long service awards | 12 836 000 | 2 101 099 | (2 181 099) | 12 756 000 |
| | **57 864 282** | **16 337 924** | **(8 618 970)** | **65 583 236** |

| | | |
|---|---|---|
| Non-current liabilities | 62 937 898 | 52 773 048 |
| Current liabilities | 14 695 448 | 12 810 188 |
| | **77 633 346** | **65 583 236** |

Impact of COVID-19

It is difficult to estimate what impact the pandemic is likely to have on the Municipality's liability at this early stage. There is much uncertainty as to how it will affect mortality, and whether (and when) a treatment or vaccine will become available. If the return to economic normalcy is extended, then the Municipality's experience regarding resignations and retrenchments may also be affected.

### 11. Payables from exchange transactions

| | | |
|---|---|---|
| Trade payables | 14 233 512 | 54 218 839 |
| Retention creditors | 111 959 952 | 94 080 361 |
| Other creditors | 10 729 040 | 10 130 626 |
| | **136 922 504** | **158 429 826** |

### 12. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| **Unspent conditional grants and receipts** | | |
|---|---|---|
| Disaster Relief Grant | 595 234 | 365 120 |
| Expanded Public Works Programme(EPWP) | - | 481 304 |
| Rural Transport Services Infrastructure Grant (RTSIG) | 3 280 511 | 1 891 169 |
| Water Services Infrastructure Grants (WSIG) | - | 26 119 275 |
| | **3 875 745** | **28 856 868** |

| **Municipal infrastructure grant (MIG)** | | |
|---|---|---|
| Current year receipts | 240 410 000 | 260 788 000 |
| Conditions met transferred to revenue | (240 410 000) | (260 788 000) |
| | - | - |

| **Finance management grant (FMG)** | | |
|---|---|---|
| Current year receipts | 1 000 000 | 1 000 000 |
| Conditions met transferred to revenue | (1 000 000) | (1 000 000) |
| | - | - |

**Expanded Public Works Programme Integrated Grant for Municipalities (EPWP)**

# Notes to the Audited Financial Statements

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

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

| | | |
| --- | --- | --- |
| Balance unspent at the beginning of the year | 481 304 | - |
| Current year receipts | 3 789 000 | 4 340 000 |
| Conditions met transferred to revenue | (3 845 000) | (3 858 696) |
| Funds returned to Treasury | (425 304) | - |
| | - | **481 304** |

**Rural transport services infrastructure grant (RTSIG)**

| | | |
| --- | --- | --- |
| Balance unspent at the beginning of the year | 1 891 169 | - |
| Current year receipts | 2 443 000 | 2 566 000 |
| Conditions met transferred to revenue | (1 053 658) | (674 831) |
| | **3 280 511** | **1 891 169** |

**Water Services Infrastructure grant (WSIG)**

| | | |
| --- | --- | --- |
| Balance unspent at the beginning of the year | 26 119 275 | - |
| Current year receipts | 80 000 000 | 145 000 000 |
| Conditions met transferred to revenue | (106 119 275) | (118 880 725) |
| | - | **26 119 275** |

**Disaster relief grant**

| | | |
| --- | --- | --- |
| Balance unspent at the beginning of the year | 365 120 | - |
| Current year receipts | 453 000 | 453 000 |
| Conditions met transferred to revenue | (222 886) | (87 880) |
| | **595 234** | **365 120** |

## 13. Finance lease obligation

**Minimum lease payments due**

| | | |
| --- | --- | --- |
| - within one year | 1 533 706 | - |
| - in second to fifth year inclusive | 2 428 366 | - |
| | 3 962 072 | - |
| less: future finance charges | (347 195) | - |
| **Present value of minimum lease payments** | **3 614 877** | **-** |

**Present value of minimum lease payments due**

| | | |
| --- | --- | --- |
| - within one year | 1 322 561 | - |
| - in second to fifth year inclusive | 2 292 316 | - |
| | **3 614 877** | **-** |

| | | |
| --- | --- | --- |
| Non-current liabilities | 2 292 316 | - |
| Current liabilities | 1 322 561 | - |
| | **3 614 877** | **-** |

The municipality leased computer equipments (printers) under finance leases.

The average lease term is 3 years and the average effective borrowing rate was 7% (: -%).

Interest rates are fixed at the contract date. All leases have fixed repayments and include additional charges for contingent rent based on a percentage of sales.

| | | |
| --- | --- | --- |
| Contingent rents | 314 009 | 966 075 |

## 14. Operating lease accrual

# Notes to the Audited Financial Statements

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

## 14. Operating lease accrual (continued)

| | | |
| --- | --- | --- |
| Current liabilities | (102 173) | (283 207) |

Future lease payments under non-cancellable operating lease:

| | | |
| --- | --- | --- |
| **Rental of office buildings** | | |
| Payable within one year | 1 393 851 | 4 229 814 |
| Payable within two to five years | 418 504 | 1 812 355 |
| | **1 812 355** | **6 042 169** |

Minimum lease payments recognised in statement of financial performance.

| | | |
| --- | --- | --- |
| Lease rentals on operating lease | 6 470 143 | 5 198 995 |

## 15. Receivables from exchange transactions

| | | |
| --- | --- | --- |
| **Gross balances** | | |
| Water | 382 491 587 | 311 918 717 |
| **Less: Allowance for impairment** | | |
| Water | (329 260 786) | (264 624 480) |
| **Net balance** | | |
| Water | 53 230 801 | 47 294 237 |
| **Water** | | |
| Current (0 -30 days) | 7 775 003 | 10 570 984 |
| 31 - 60 days | 8 670 865 | 4 626 048 |
| 61 - 90 days | 6 184 983 | 4 555 878 |
| 91 - 120 days | 5 237 030 | 4 211 942 |
| 121 - 365 days | 25 362 920 | 23 329 385 |
| | **53 230 801** | **47 294 237** |

**Summary of debtors by customer classification**

| | | |
| --- | --- | --- |
| **Consumers** | | |
| Current (0 -30 days) | 7 447 346 | 10 298 126 |
| 31 - 60 days | 6 845 242 | 5 081 335 |
| 61 - 90 days | 6 873 296 | 5 586 465 |
| 91 - 120 days | 6 362 803 | 5 788 294 |
| 121 - 365 days | 320 446 565 | 254 787 672 |
| | 347 975 252 | 281 541 892 |
| Less: Allowance for impairment | (317 320 372) | (252 706 840) |
| | **30 654 880** | **28 835 052** |
| **Industrial/ commercial** | | |
| Current (0 -30 days) | 483 477 | 782 059 |
| 31 - 60 days | 2 784 525 | 308 292 |
| 61 - 90 days | 445 569 | 283 529 |
| 91 - 120 days | 318 197 | 234 034 |
| 121 - 365 days | 15 696 302 | 13 337 188 |
| | 19 728 070 | 14 945 102 |
| Less: Allowance for impairment | (11 940 420) | (11 917 640) |

# Notes to the Audited Financial Statements

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

### 15. Employee related costs (continued)

| | | |
|---|---|---|
| | **7 787 650** | **3 027 462** |

| **National and provincial government** | | |
|---|---|---|
| Current (0 -30 days) | 451 986 | 538 550 |
| 31 - 60 days | 460 560 | 200 767 |
| 61 - 90 days | 423 173 | 171 051 |
| 91 - 120 days | 380 473 | 140 073 |
| 121 - 365 days | 13 074 880 | 15 395 701 |
| | **14 791 072** | **16 446 142** |

| **Total** | | |
|---|---|---|
| Current (0 -30 days) | 8 382 810 | 11 618 735 |
| 31 - 60 days | 10 090 328 | 5 590 394 |
| 61 - 90 days | 7 742 038 | 6 041 045 |
| 91 - 120 days | 7 061 473 | 6 162 401 |
| 121 - 365 days | 349 214 938 | 282 506 136 |
| | 382 491 587 | 311 918 711 |
| Less: Allowance for impairment | (329 260 786) | (264 624 474) |
| | **53 230 801** | **47 294 237** |

| **Less: Allowance for impairment** | | |
|---|---|---|
| Current (0 -30 days) | (607 807) | (1 047 751) |
| 31 - 60 days | (1 419 463) | (964 347) |
| 61 - 90 days | (1 557 055) | (1 485 167) |
| 91 - 120 days | (1 824 444) | (1 950 459) |
| 121 - 365 days | (323 852 017) | (259 176 756) |
| | **(329 260 786)** | **(264 624 480)** |

| **Reconciliation of allowance for impairment** | | |
|---|---|---|
| Balance at beginning of the year | (264 624 480) | (210 873 933) |
| Contributions to allowance | (56 205 483) | (46 739 606) |
| VAT on impairment | (8 430 823) | (7 010 941) |
| | **(329 260 786)** | **(264 624 480)** |

### 16. Revenue

| | | |
|---|---|---|
| Service charges | 81 097 388 | 71 288 454 |
| Other income | 1 622 846 | 439 834 |
| Interest received - investment | 23 739 979 | 28 703 486 |
| Interest received - outstanding debtors | 31 010 950 | 14 110 448 |
| Government grants & subsidies | 1 043 822 004 | 974 352 060 |
| Donations | - | 546 000 |
| Fines, Penalties and Forfeits | 61 090 | - |
| | **1 181 354 257** | **1 089 440 282** |

| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
|---|---|---|
| Service charges | 81 097 388 | 71 288 454 |
| Other income | 1 622 846 | 439 834 |
| Interest received - investment | 23 739 979 | 28 703 486 |
| Interest received - outstanding debtors | 31 010 950 | 14 110 448 |
| | **137 471 163** | **114 542 222** |

# Notes to the Audited Financial Statements

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

**16. Revenue (continued)**
**The amount included in revenue arising from non-exchange transactions is as follows:**

| | | |
|---|---|---|
| **Transfer revenue** | | |
| Government grants & subsidies | 1 043 822 004 | 974 352 060 |
| Donations | - | 546 000 |
| Fines, Penalties and Forfeits | 61 090 | - |
| | **1 043 883 094** | **974 898 060** |

## 17. Employee related costs

| | | |
|---|---|---|
| Basic | 223 472 740 | 214 509 561 |
| Bonus | 21 440 047 | 20 311 680 |
| Medical aid - company contributions | 16 732 657 | 15 216 627 |
| UIF | 1 044 256 | 1 051 102 |
| Long-service awards | 2 648 236 | 2 412 000 |
| Car allowance | 20 040 708 | 19 534 294 |
| Housing benefits and allowances | 2 297 871 | 2 311 209 |
| Acturial Losses | 5 501 000 | 1 405 406 |
| Pension fund | 35 885 266 | 34 364 569 |
| | **329 062 781** | **311 116 448** |

**Remuneration of Municipal Manager**

| | | |
|---|---|---|
| Annual Remuneration | 1 670 852 | 1 556 339 |
| Car allowance and other allowances | 147 753 | 146 969 |
| Contributions to UIF, Medical and Pension Funds | 37 413 | 34 837 |
| | **1 856 018** | **1 738 145** |

**Remuneration of Chief Finance Officer**

| | | |
|---|---|---|
| Annual Remuneration | 1 214 477 | 1 214 478 |
| Car allowance and other allowances | 139 821 | 136 836 |
| Contributions to UIF, Medical and Pension Funds | 92 899 | 92 870 |
| | **1 447 197** | **1 444 184** |

**Remuneration of Technical Services**

| | | |
|---|---|---|
| Annual Remuneration | 882 655 | 884 352 |
| Car allowance and other allowances | 259 821 | 256 836 |
| Contributions to UIF, Medical and Pension Funds | 120 205 | 116 917 |
| | **1 262 681** | **1 258 105** |

**Remuneration of Development, Economic and Planning Management Services**

| | | |
|---|---|---|
| Annual Remuneration | 1 166 974 | 1 112 429 |
| Car allowance and other allowances | 271 821 | 269 433 |
| Contributions to UIF, Medical and Pension Funds | 117 489 | 104 191 |
| | **1 556 284** | **1 486 053** |

**Remuneration of Strategic Support Services**

| | | |
|---|---|---|
| Annual Remuneration | 1 112 516 | 1 115 376 |
| Car allowance and other allowances | 199 822 | 196 836 |
| Contributions to UIF, Medical and Pension Funds | 134 971 | 132 367 |

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

### 17. Employee related costs (continued)

| | | |
|---|---|---|
| | **1 447 309** | **1 444 579** |

**Remuneration of Corporate Services**

| | | |
|---|---|---|
| Annual Remuneration | 1 502 328 | 910 087 |
| Car allowance and other allowances | 205 254 | 136 836 |
| Contributions to UIF, Medical and Pension Funds | 315 011 | 210 686 |
| | **2 022 593** | **1 257 609** |

**Remuneration of Community Services**

| | | |
|---|---|---|
| Annual Remuneration | 205 434 | 556 109 |
| Car allowance and other allowances | - | 53 933 |
| Contributions to UIF, Medical and Pension Funds | - | 15 326 |
| | **205 434** | **625 368** |

| | | |
|---|---|---|
| **Total employee related costs** | **338 860 297** | **320 370 491** |

**Performance bonuses for Senior Management were paid as follows**

| | | |
|---|---|---|
| Municipal Manager | 49 654 | 70 174 |
| Chief Financial Officer | 49 893 | 53 313 |
| Strategic Support Services | 41 581 | 48 633 |
| Corporate Services | - | 14 376 |
| Development, Economic and Planning Management Services | 41 581 | 39 235 |
| Community Services | - | 24 600 |
| | **182 709** | **250 331** |

### 18. Remuneration of councillors

| | | |
|---|---|---|
| Executive Mayor | 1 104 636 | 1 104 636 |
| Chief Whip | 829 648 | 829 646 |
| Mayoral Committee Members | 5 111 237 | 4 795 071 |
| Speaker | 881 997 | 881 997 |
| Councillors | 4 761 013 | 4 945 516 |
| Councillors' pension contribution | 429 375 | 440 867 |
| Councillor's allowances | 1 605 475 | 1 667 640 |
| Section 79 Committee | 489 784 | 489 784 |
| | **15 213 165** | **15 155 157** |

**In-kind benefits**

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

The Executive Mayor has two full-time bodyguards.

**Additional information**

The salaries, allowances and benefits of political office-bearers and councillors of the municipality are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa read with the Remuneration of Public Office Bearers Act (Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with this Act.

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

### 19. Commission Expense

Commission is paid to local municipality for the management of water related services.

| | | |
|---|---|---|
| Collection costs | 33 632 502 | 25 670 499 |

### 20. Depreciation and amortisation

| | | |
|---|---|---|
| Property, plant and equipment | 69 802 221 | 68 256 691 |
| Intangible assets | 843 924 | 3 037 950 |
| | **70 646 145** | **71 294 641** |

### 21. Derecognition of Assets

| | | |
|---|---|---|
| Derecognition of assets | 16 410 509 | 704 103 |

2021 - These relate to donation of waste equipment to Molemole Local Municipality.

### 22. Finance costs

| | | |
|---|---|---|
| Finance, other interest and penalties | 114 646 | 109 850 |

### 23. Inventories consumed

| | | |
|---|---|---|
| Water | 73 047 440 | 72 282 067 |
| Materials and consumables | 7 290 955 | 6 768 900 |
| | **80 338 395** | **79 050 967** |

### 24. Grants and subsidies paid

| | | |
|---|---|---|
| Grants paid to local municipalities | 336 842 | 2 663 158 |

### 25. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Property, plant and equipment | 197 745 385 | 350 500 491 |
| | | |
| **Total capital commitments** | | |
| Already contracted for but not provided for | 197 745 385 | 350 500 491 |
| | | |
| **This expenditure will be financed from** | | |
| Government grants - conditional | 193 434 243 | 349 629 477 |
| Equitable share grant | 4 311 142 | 871 014 |
| | **197 745 385** | **350 500 491** |

**Authorised operational expenditure**

**Already contracted for but not provided for**

# Notes to the Audited Financial Statements

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

## 25. Commitments (continued)

| | | |
| --- | --- | --- |
| • Infrustructure | 19 577 047 | 5 341 761 |
| • Other | 7 135 727 | 27 680 704 |
| | **26 712 774** | **33 022 465** |

| | | |
| --- | --- | --- |
| **Total operational commitments** | | |
| Already contracted for but not provided for | 26 712 774 | 33 022 465 |

| | | |
| --- | --- | --- |
| **This expenditure will be financed from** | | |
| Government grants - conditional | 19 561 015 | 5 813 066 |
| Equitable share grant | 7 151 759 | 27 209 399 |
| | **26 712 774** | **33 022 465** |

**Total commitments**

| | | |
| --- | --- | --- |
| **Total commitments** | | |
| Authorised capital expenditure | 197 745 385 | 350 500 491 |
| Authorised operational expenditure | 26 712 774 | 33 022 465 |
| | **224 458 159** | **383 522 956** |

| | | |
| --- | --- | --- |
| **This expenditure will be financed from** | | |
| Government grants - conditional | 212 995 258 | 355 442 543 |
| Equitable share grant | 11 462 901 | 28 080 413 |
| | **224 458 159** | **383 522 956** |

Commitments disclosed are inclusive of value added tax where applicable.

A total amount of R1 775 839 was adjusted in the previous year due to commitments which was understated.

## 26. Cash generated from operations

| | | |
| --- | --- | --- |
| Surplus | 356 767 550 | 356 706 761 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 70 646 145 | 71 294 641 |
| Loss on disposal of assets | 9 506 770 | 159 755 |
| Impairment loss | 13 976 846 | 9 620 006 |
| Finance costs - Finance leases | - | 109 850 |
| Debt impairment | 57 505 933 | 46 676 508 |
| Movements in operating lease accruals | (181 034) | 70 911 |
| Movements in retirement benefit assets and liabilities | 12 050 110 | 7 718 953 |
| Acturial loss | 5 501 000 | - |
| Derecognition of assets | 16 410 509 | 704 102 |
| Retention forfeits | (61 090) | - |
| Long service awards | 2 813 236 | 7 718 953 |
| **Changes in working capital:** | | |
| Inventories | 125 514 | 916 825 |
| Trade receivables | (71 285 847) | (65 556 723) |
| Prepayments | 490 839 | 85 168 |
| Payables from exchange transactions | (21 446 231) | 41 549 235 |
| VAT | (24 737 288) | 3 944 695 |
| Unspent conditional grants and receipts | (24 981 123) | 28 856 868 |
| | **403 101 839** | **510 576 508** |

## 27. Fruitless and wasteful expenditure

| | | |
| --- | --- | --- |
| Opening balance as previously reported | 1 057 943 | 949 778 |

# Notes to the Audited Financial Statements

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

## 27. Fruitless and wasteful expenditure (continued)

| | | |
|---|---|---|
| Correction of prior period error | - | (120) |
| **Opening balance** | **1 057 943** | **949 658** |
| Add: Expenditure identified - current | 700 552 | 108 285 |
| Less: Amounts recoverable | (102 756) | - |
| Less: Amount written off by Council | (991 984) | - |
| **Closing balance** | **663 755** | **1 057 943** |

2021 - Penalties paid to Polokwane Traffic department, payment for furniture not delivered at TT Cholo Fire Station and payment for back-up generator not delivered at TT Cholo Fire Station.

2020 - Penalties charged by SARS

## 28. Irregular expenditure

| | | |
|---|---|---|
| Opening balance as previously reported | 627 258 | 47 084 193 |
| **Opening balance** | **627 258** | **47 084 193** |
| Add: Expenditure identified - current | 2 476 130 | 3 354 702 |
| Less: Amount transferred to debtor | (15 225) | - |
| Less: Amounts reversed | (2 905) | - |
| Less: Amount written off by council | (3 083 870) | (49 811 637) |
| **Closing balance** | **1 388** | **627 258** |

2021 - No contract in place for Amasondo and Household Sanitation-Lepelle Nkumpi Local Municipality bid was advertised on the municipality's website for less than 30 days.

2020 - The irregular expenditure relates to 2017/18 payment of employees after resignation(MM Makgopye, MH Latakgomo, LP Malebana, PE Raphila) and as a result of non-compliance with SCM regulations on the appointment of service provider for Household Sanitation (Lepelle Nkumpi Local Municipality).

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

### Contributions to organised local government

| | | |
|---|---|---|
| Opening balance | 3 204 938 | 3 290 109 |
| Current year subscription | (3 204 939) | (3 290 109) |
| Amount paid - current year | 2 222 602 | 3 204 938 |
| | **2 222 601** | **3 204 938** |

The amount of R2 222 601 is paid in advance as a result of discounts given for early payment.

### Audit fees payable

| | | |
|---|---|---|
| Opening balance | 13 325 | - |
| Current year fee | 4 159 381 | 3 461 767 |
| Amount paid - current year | (4 230 378) | (3 448 442) |
| | **(57 672)** | **13 325** |

### PAYE, UIF and SDL payable

| | | |
|---|---|---|
| Opening balance | - | - |
| Current year fee | 64 367 529 | 60 954 084 |
| Amount paid - current year | (64 367 529) | (60 954 084) |
| | - | - |

### Pension, UIF and medical aid deductions payable

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

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

| | | |
| --- | --- | --- |
| Opening balance | - | - |
| Current year subscription | 53 582 294 | 51 780 359 |
| Amount paid - current year | (53 582 294) | (51 780 359) |
| | - | - |

**Arrear consumer account: Councillors**

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

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

| | | |
| --- | --- | --- |
| 30 June 2021 | | |
| Councillor Kgweedi MM | 1 857 | 1 422 |
| Councillor Doubada NM | 84 170 | 44 897 |
| Councillor Ramokolo MM | 2 000 | 1 241 |
| Councillor Choung CM | 3 543 | 1 594 |
| Councillor Mollo MI | 758 | 535 |
| Councillor Ramalebana L.M | 38 888 | 28 977 |
| Councillor Morotoba | 1 271 | - |
| | **132 487** | **78 666** |

**Supply chain management regulations**

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

| **Incident** | | |
| --- | --- | --- |
| Replace an ION chromatography separation columns and guard columns - Sole Provider | - | 26 412 |
| Jaws softwares ( screen reading for visually impaired) - Sole Provider | - | 15 040 |
| Educational Support Management Pax College - Impractical to follow procurement process. | 180 000 | 150 000 |
| Cultural groups for District Heritage Celebrations - Special work of art | - | 8 000 |
| SANAS accredited Proficiency Testing Scheme - Sole Provider | 30 402 | 33 049 |
| SANAS accredited Proficiency Testing Scheme - Sole provider | 33 579 | 19 895 |
| Repairing and maintenance of meter reading scanners - Impractical to follow the SCM processes | 16 100 | 8 050 |
| Delivery of Systems- Microsoft Office - Sole provider | - | 2 304 549 |
| Mimecast Mai Archiving System - Sole provider | 270 116 | - |
| Repairing damaged E Samplers - Sole provider | 87 887 | - |
| Repairing Speaker's vehicle - Impractical to follow the SCM processes | 27 297 | - |
| Licencing, maintenance and support of the current intergrated emergency and disaster management communication system - Impractical to follow procurement process. | 414 000 | - |
| Annual renewal of Caseware Licence fees - Impractical to follow the normal SCM process because the payment is for Caseware licence fee | 133 030 | - |
| Procurement of 10 X 16500 litres water tankers through RT57 process - Impractical to follow procurement process | 21 996 758 | - |
| Repairing Mayors vehicle - Impractical to follow the SCM processes | 5 639 | - |
| Performing Artist -Special work of art | - | - |
| Licencing and of SANS codes of Practice - Sole Provider | 41 263 | - |
| SANAS Accredited Proficiency testing Scheme (NLA)- Sole Provider | 20 470 | - |
| Repairing E Samplers- Sole Provider | 40 802 | - |
| Servicing and maintenance of the breathing air apparatus compressor cascade system - Sole Provider | 43 751 | - |

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

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

| | | |
|---|---|---|
| Competency Assessment for section 56 Positions -Impractical to follow the normal SCM process | 35 700 | - |
| Purchasing of speakers vehicle through RT57 process - Impractical to follow the SCM processes | 534 996 | - |
| Additional Microsoft F3 Licences - Sole Provider | 139 303 | - |
| Licence renewal for meter reading system-Impractical to follow the SCM processes because this is the company we procured the scanners for the meter readers | 72 336 | - |
| | **24 123 429** | **2 564 995** |

**The following deviations were made on rate basis;**

Radio Broadcasting - Special works of art
Newspaper Publishing - Special works of art
Subscription for newspapers - Special works of art
Vehicle tracking system through National Treasury Transversal contract - Impractical to follow the SCM processes
Training for councillors, traditional leaders and officials traditional leaders and officials - Impractical to follow the SCM processes

### 30. Contingent Liability

**Claim for damages**
The Municipality has a contingent liability of R 33 448 998 due to it being sued by service providers.

| | | |
|---|---|---|
| In Sithu Consulting Engineers | 258 051 | 258 051 |
| Physon Business Solution (Pty) Ltd | 1 191 614 | 1 191 614 |
| Storm Fencing | 585 023 | 585 023 |
| Hulisani Vincent Sithagu | 3 234 000 | 3 234 000 |
| In Touch | 3 516 400 | 3 516 400 |
| Royal Haskoning | 11 472 233 | 11 472 232 |
| Mantella Trading 415cc and another | 2 587 544 | 2 587 544 |
| Dirk Jacobus Floris Venter | 635 350 | 635 350 |
| Mgababa Travel Agency | 1 057 140 | - |
| Hall Longmore Holdings (Pty) Ltd | 8 911 643 | - |
| | **33 448 998** | **23 480 214** |

Gaurantee

Guarantee held by Eskom for the supply of electricity to Lebowakgomo sewege plant amounting to R294 600 on FNB account.

The Guarantor reserves the right to withdraw from the guarantee upon providing 3 (three) months notice in writing of its intention.

The guarantee is neither negotiable or transferable and is limited to the payment of money only.

**The following are contingent liabilities whose values are not yet ascertainable,**

NJ Morero - Labour Court Application for interpretation of the Transfer Agreement.

N.J Morero - Labour Court Application for Review of the decision of SALGA Arbitrator concerning car allowance.

N.J Morero - High Court Application for Review of the decision of the Municipality to appoint Ledile Eunice Manamela to the position of Disability and Elderly Coordinator and substitute the said decision with the decision to appoint Makopa Ethen Legodi to the same position.

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

### 30. Contingent Liability (continued)

Mathopo Makweya - High Court IMATU approached the South African Local government Bargaining Council alleging that the transferred employees were entitled to 22% employer contribution from the date of transfer. The arbitrator dismissed their application. They have now made an application to the Labour Court for the review of the arbitration.

Popela Maake Attorneys - High Court Interdict Mafikeng and Others applied to the High Court for an order restraining Kgoshi Moloto from harming the applicants and directing the MEC for Coghsta to investigate breach of the Code of Conduct for Councillors by Kgoshi Moloto as he is traditional leader appointed by the MEC to serve in Council.

Matabane Attorneys - Supreme Court Of Appeal The Applicant has petitioned the Supreme Court of Appeal to appeal against the judgment of the High Court.

Mmakola Matsimela - Application by Mr. Mphahlele alleging that the sewage is spilling into a river at Makhurung village endangering the lives of the residents. Upon consultation with employees in charge of the waste water treatment plant the allegations were found not to be true and the application was opposed in Court. The matter was struck from the roll and later the Applicant decided to withdraw the Application. The Municipality has made an Application for Court to compel Mr Mphahlele to pay for our legal costs.

Mohale Incorporated Attorneys - Applicant made an Application to the High Court requesting an order that (1). CDM is failing to exercise its function as a water service authority in respect of Dipateng village (Botlokwa). (2). Department of Water and Sanitation must take away the function of water service authority from CDM and exercise it, alternatively CDM exercise the function together with Molemole Loca Municipality. (3). CDM furnish the Applicant with its plan of water provision for the village of Dipateng and if it does not have it, develop one within a period of 12 months.

### 31. Related parties

| | |
|---|---|
| Relationships | |
| Compensation to councillors | Note 17 |
| Contributions to organised local government | Note 28 |
| Post employment benefit plan for employees of entity and/or other related parties | Note 9 |
| Members of key management | Note 16 |

### 32. General expenses

| | 2021 | 2020 |
|---|---|---|
| Advertising | 1 671 133 | 1 245 652 |
| Auditors remuneration | 4 159 382 | 3 461 767 |
| Bank charges | 146 329 | 187 506 |
| Fines and penalties | - | 108 164 |
| Conferences and seminars | 2 680 705 | 2 658 263 |
| IT expenses | 5 213 455 | 3 779 250 |
| Packaging | 2 354 064 | 2 224 489 |
| Protective clothing | - | 87 880 |
| Subscriptions and membership fees | 3 380 075 | 3 405 065 |
| Telephone and fax | 1 893 560 | 1 853 040 |
| Training | 2 524 742 | 3 122 217 |
| Travel - local | 12 318 746 | 14 241 787 |
| Bursaries | 671 133 | 653 231 |
| Other expenses | 17 196 738 | 12 671 423 |
| | **54 210 062** | **49 699 734** |

### 33. Key sources of estimation uncertainty and judgements

In using estimates a number of assumptions are required. GRAP 1 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 1 and in discussion with the professional consultants.

The assumptions should be realistic and mutually compatible. The difference between the assumptions drives the estimate and it is very important to monitor how this difference changes from one year's estimate to the next.

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

### 33. Key sources of estimation uncertainty and judgements (continued)

The following areas involve a significant degree of estimation uncertainty:

- Useful lives and residual values of property, plant, and equipment
- Recoverable amounts of property, plant and equipment
- Present value of defined benefit obligation
- Provision for doubtful debts
- Impairment of assets
- Provision for long-term service award and medical aid benefits

The following areas involved judgements, apart from those involving estimations disclosed above, that management has made in the process of applying the municipality's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

- Impairment of assets
- Provisions

### 34. Risk management

**Liquidity risk**

Liquidity risk is the risk that the municipality will not be able to meet its obligations as they fall due. The municipality's approach is to ensure that sufficient liquidity is available to meet its liabilities when due. The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses. This is guided by working capital and revenue enhancement policy

The municipality uses cash flow forecasts to ensure that sufficient cash is available to meet expected operating expenses. This is guided by working capital and revenue enhancement policy

The following are contractual liabilities of which the interest is included in borrowings:

| At 30 June 2021 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Borrowings | 3 614 877 | - | - | - |
| Operating lease liabiity | 102 173 | - | - | - |
| Trade and other payables | 136 922 502 | - | - | - |

| At 30 June 2020 | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|---|---|---|---|---|
| Operating lease liabiity | 283 207 | - | - | - |
| Trade and other payables | 158 429 825 | - | - | - |

**Credit risk**

Credit risk is managed on a group basis.

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

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

No credit limits were exceeded during the reporting period, and management does not expect any surplus from non-performance by these counterparties.

| Financial instrument | June 2021 | June 2020 |
|---|---|---|
| Cash and cash equivalents | 353 903 970 | 360 786 777 |

## Notes to the Audited Financial Statements

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

**34. Risk management (continued)**

| | | |
|---|---|---|
| Receivable from exchange transactions | 53 230 801 | 47 294 237 |
| Receivables from non-exchange transactions | 31 417 965 | 32 005 437 |
| VAT receivable | 29 256 942 | 4 519 654 |

**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.

**35. Impairment loss**

| | | |
|---|---|---|
| Property, plant and equipment | (13 976 846) | (9 620 006) |

**36. Changes in accounting estimates, errors and disclosure**

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

Correction of error

Property,plant and equipment was overstated due to motor vehicle which was supposed to have been written off in prior year.
The other correction was as a result of review of useful life due to assets with zero values at year end.

Intangible assets were restated due to review of useful life due to assets with zero values at year end and the assets which were supposed to have been written off in the prior years.

Depreciation and amortisations were restated due to review of useful life due to assets with zero values at year end and the assets which were supposed to have been written off in the prior years.

Repairs and maintenance was restated due to assets which were incorrectly expensed.

Sundry debtors were restated due to overpaid service provider due to wrong calculations.

Derecognition of assets was restated due to boreholes which were declared dry.

Contracted services was restated due to overpaid service provider due to wrong calculations.

Reclassifications.

Consumables previously reported as general expenses and bulk purchases have been reclassified to inventories consumed.

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

| **Statement of financial position** | As previously reported | Correction of error | Reclassification | Restated |
|---|---|---|---|---|
| Receivables from non-exchange transaction | 31 569 311 | 436 127 | - | 32 005 438 |
| Property, plant and equipment | 2 845 760 386 | 8 365 308 | - | 2 854 125 694 |
| Intangible asset | 2 578 121 | 1 371 823 | - | 3 949 944 |
| | **2 879 907 818** | **10 173 258** | **-** | **2 890 081 076** |

| **Statement of financial performance** | As previously reported | Correction of error | Reclassification | Restated |
|---|---|---|---|---|
| Revenue | - | - | - | - |
| Expenditure | - | - | - | - |

## Notes to the Audited Financial Statements

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

### 36. Changes in accounting estimates, errors and disclosure (continued)

| | | | | |
|---|---|---|---|---|
| Depreciation | (73 898 366) | 2 603 725 | - | (71 294 641) |
| Bulk purchases | (72 282 067) | - | 72 282 067 | - |
| Inventories consumed | - | - | (79 050 968) | (79 050 968) |
| Contracted services | (82 233 628) | 436 127 | - | (81 797 501) |
| Derecognition of assets | - | (704 103) | - | (704 103) |
| General expenses | (56 468 634) | - | 6 768 901 | (49 699 733) |
| Repairs and Maintenance | (24 618 420) | 56 360 | - | (24 562 060) |
| | **(309 501 115)** | **2 392 109** | **-** | **(307 109 006)** |

### 37. Distribution Loss

| | 2021 | 2020 |
|---|---|---|
| Unit purchased (kl) | 9 018 516 | 8 921 454 |
| Units sold (kl) | (4 661 938) | (6 924 780) |
| | **4 356 578** | **1 996 674** |
| Average cost per unit purchases (cents per kl) | 8.05 | 8.05 |
| Net loss in rands | 35 070 452 | 16 073 226 |
| % Loss in purchases of water | 41,77 % | 19,36 % |

### 38. Service charges

| | 2021 | 2020 |
|---|---|---|
| Sale of water | 81 097 388 | 71 288 454 |

### 39. Government grants and subsidies

| | 2021 | 2020 |
|---|---|---|
| **Operating grants** | | |
| Equitable share | 690 847 579 | 588 933 000 |
| Finance Management Grant | 1 000 000 | 1 000 000 |
| LG Seta Grant | 342 881 | 128 928 |
| Rural Transport Infrastructure Grant | 1 053 658 | 674 831 |
| EPWP Grant | 3 845 000 | 3 858 696 |
| Disaster Relief Grant | 222 886 | 87 880 |
| | **697 312 004** | **594 683 335** |
| **Capital grants** | | |
| Municipal Infrastructure Grant | 240 410 000 | 260 788 000 |
| Water Services Infrastructure Grant | 106 100 000 | 118 880 725 |
| | **346 510 000** | **379 668 725** |
| | **1 043 822 004** | **974 352 060** |

### 40. Other income - exchange

| | 2021 | 2020 |
|---|---|---|
| Other income | 1 622 846 | 439 834 |

### 41. Debt impairment

| | 2021 | 2020 |
|---|---|---|
| Contributions to debt impairment provision | 57 505 933 | 46 676 508 |

# Notes to the Audited Financial Statements

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

## 42. Interest revenue

| | | |
|---|---|---|
| Interest earned from outstanding debtors | 31 010 950 | 14 110 448 |
| Interest received - external investment | 23 739 979 | 28 703 486 |
| | **54 750 929** | **42 813 934** |

## 43. Auditors' fees

| | | |
|---|---|---|
| Fees | 4 159 382 | 3 461 767 |

## 44. Lease rentals on operating lease

| | | |
|---|---|---|
| **Lease rentals on operating lease** | | |
| Contractual amounts | 6 470 143 | 5 198 995 |

## 45. Contracted services

| | | |
|---|---|---|
| **Presented previously** | | |
| Information Technology Services | 6 882 251 | 5 666 876 |
| Fleet Services | 1 678 729 | 3 466 492 |
| Other Contractors | 102 871 684 | 72 664 229 |

## 46. Events after the reporting date

The government has declared the State of Disaster for COVID 19 pandemic with effect from the 26 March 2020. The COVID 19 pandemic will however not result in the adjusting events as all the expenditures incurred will be reported in the financial year in which they occured. The State of Disaster for COVID 19 has been extended until 15 September 2021.

## 47. Comparison with the Budget

**Material differences between budget and actual amounts**

The comparison of the Municipality's actual financial performance with that budgeted is set out in the statement of comparison of budget and actual amounts.

The budget is approved on an accrual basis using a classification based on the nature of expenses. The approved budget covers the period from 01 July 2020 to 30 June 2021. The budget and accounting basis are the same.

**Changes from the approved budget to the final budget**

The changes between the approved and final budget are as a consequence of adjustments and roll-overs of grants

Variances of 10% or more are explained as set out below:

**Statement of Financial Performance**

Fines, penalties and forfeits(-39%) Forfeits not budgeted for as it is a non-cashflow item.

Impairment loss (-26%) Less expenditure than anticipated.

Contracted services (-11%) Not all projects implemented due to Covid.

Finance costs (-76%) New contract only started in December 2020.

Lease rentals on operating lease (-21%) Less expenditure than anticipated.

## Notes to the Audited Financial Statements

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

### 47. Comparison with the Budget (continued)

Repairs and Maintenance (-36%) Less expenditure than anticipated

General expenses (-55%) Savings on general expenses due to Covid.

**Statement of Financial Position**

VAT receivable (+60%) VAT not refunded by SARS.

Payables from exchange transactions (-36%) Less invoices accruals at year end.

**Cash Flow Statement**

Service charges and other income (-15%) Increase in debts due to COVID 19..

Suppliers (-23%) Cost containment and projects not implemented due to COVID.

Finance costs (-76%) New contract only started in December 2020

Purchase of Intangible asset (+100%) Not separately budgeted for.

Finance lease payments (+100%) Not separately budgeted for.

### 48. Loss on disposal of assets

| | | |
|---|---|---|
| Gain or loss on disposal of assets and liabilities | (9 506 770) | (159 755) |

### 49. Donations

| | | |
|---|---|---|
| Donations | - | 546 000 |

2020 - Revenue received for donation of land by Blouberg Municipality.

### 50. COVID 19 Expenditure

| | | |
|---|---|---|
| Hand sanitizers | - | 15 353 |
| PPE and hygiene products | - | 1 196 951 |
| Cloth masks | - | 71 050 |
| Sanitisation wipe stands | - | 25 300 |
| A2 posters for hand wash | - | 36 960 |
| Identification cards for essential workers | - | 37 400 |
| Catering for COVID 19 District Command Council meeting | - | 17 525 |
| Non-contact forehead Infrared Thermometers | - | 19 000 |
| Promotional material COVID 19 | 126 073 | - |
| Disinfectanct bleach | 3 335 | - |
| Digital Thermometers | 46 479 | - |
| Hand sanitizers, wash soap, stickers | 246 550 | - |
| COVID 19 supplies | 202 600 | - |
| | **625 037** | **1 419 539** |

### 51. Repairs and Maintenance expenditure

| | | |
|---|---|---|
| Maintenance - buildings | 2 977 537 | 2 066 270 |
| Maintenance - equipment | 931 502 | 1 067 627 |
| Maintenance - transport assets | 2 788 441 | 6 675 146 |
| Maintenance - infrastructure | 9 234 308 | 14 753 017 |
| | **15 931 788** | **24 562 060** |

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

### 52. Principal- Agent Arrangements

**Principal in other Principal- Agent Arrangements**

Capricorn District Municipality is the Principal in arrangements with its three local municipalities who sell water on behalf of the district. The local municipalities earn 30% commission on revenue collected/ to be collected.

The following information is disclosed as per GRAP 109.

| | | |
| --- | --- | --- |
| Lepelle Nkumpi Local municipality | 31 254 727 | 23 335 851 |
| Blouberg Local municipality | 1 659 142 | 1 651 258 |
| Molemole Local municipality | 718 633 | 683 390 |
| | **33 632 502** | **25 670 499** |

There are no resources under the custodianship of the agents, nor have they been recognised as such. As at 30 June 2021 the amount received on behalf of the municipality which is still in the custody of the local municipalities has been disclosed as receivables from non-exchange under note 3.

The municipality will not incur any cost if the contractual arrangement is terminated in future.

### 53. Fines, Penalties and Forfeits

| | | |
| --- | --- | --- |
| Retentions Forfeits | 61 090 | - |