



CAPRICORN DISTRICT MUNICIPALITY

ANNUAL FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2023

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

General Information

Executive Mayor

Teffo MK

Speaker

Pheedi MS

Chief Whip

Malebana CWD

Members of the Mayoral Committee

Mahlatji MS (Strategic Executive Management Services)

Makhura MH (Sports, Arts and Culture)

Mamabolo CM (Local Economic Development)

Masoga MC (Development Planning and Environmental Management Portfolio Committee)

Mohale MM (Infrastructure Services)

Rahlana ME (Community Services)

Ramokolo MM (Finance)

Selamolela MS (Corporate Services)

Chairperson of Committees

Lebese MJ (Community Services)

Machaba MJ (Sport, Arts & Culture)

Masemola SG (Infrastructure Services)

Masoga PS (Committee of Chairpersons)

Masubelele JA (Ethics, Rules and Integrity)

Mothata ML (Municipal Public Accounts)

Muthabine Rufus (Corporate Services)

Phukubje D (Strategic Support)

Ralefatane MJ (Development Planning and Environmental Management)

Tshoshi MM (Finance)

Members

Botha HA

Chidi DRT

Chula MI

Clarke SE

Dikgale SJ

Hamise LH

Hiine PJ

Kekana MS

Lebese GM (Appointed 25 April 2023)

Lehong MV

Kekana MS

Mabote MG

Madiope TM (Expulsion 5 June 2023)

Malebana TG

Maleka PI

Mampuru MT

Masekwameng MR

Matlabane KNJ (Resigned 25 April 2023)

Matonzi T

Mocke B

Mogale KK

Mohlabeng DM

Mokome MS

Molokomme MM

Capricorn District Municipality

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General Information

	Moloto MH
	Morokolo MD (Appointed 5 June 2023)
	Mothata LS (Expulsion 5 June 2023)
	Mothiba TP
	Motolla MO
	Murwa TPK
	Ntjana MI
	Pheedi MR
	Phogole ML
	Rababalela SM
	Ramaphoko MM
	Raphela TR (Resigned 18 April 2023)
	Takalo MS
	Themane MD
Grading of local authority	Category B - Grade 5
Chief Finance Officer (CFO)	Tiro Pilusa (Acting CFO)
Accounting Officer	Ramakuntwane Selepe
Business address	41 Biccard Street Polokwane 0699
Postal address	Private Bag X4100 Polokwane 0700
Bankers	First National Bank (Primary account)
Auditors	Auditor General of South Africa
Telephone	015 294 1000
Email Address	info@cdm.org.za

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

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Abbreviations used:

UIF	Unemployment insurance fund
PAYE	Pay-As-You-Earn
GRAP	Generally Recognised Accounting Practice
MIG	Municipal Infrastructure Grant
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
WSIG	Water Services Infrastructure Grant
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2024 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2023 and were signed on its behalf by:



Ramakuntwane Selepe
Municipal Manager

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2023.

1. Review of activities

Main business and operations

The municipality is engaged in local government activities and operates only in South Africa.

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

Net surplus of the municipality was R 447 310 445 (2022: surplus R 308 910 640).

2. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus of R 4 094 650 933 and that the municipality's total liabilities exceed its assets by R 4 094 650 933.

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

3. Subsequent events

Except for the resignation of the Chief Financial Officer on 18 August 2023, the accounting officer is not aware of any other matter or circumstance arising since the end of the financial year.

4. Accounting policies

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

5. Accounting Officer

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

Name	Nationality	Changes
Ramakuntwane Selepe	South African	Appointed Friday, 01 July 2022

6. Corporate governance

General

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

7. Auditors

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

The annual financial statements set out on page 5, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2023 and were signed on its behalf by:



Ramakuntwane Selepe
Municipal Manager

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Position as at 30 June 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	2	7 426 003	3 437 036
Receivables from exchange transactions	3	19 180 450	23 965 557
Receivables from non-exchange transactions	4	4 029 765	4 046 647
VAT receivable	5	32 351 334	25 504 409
Prepayments	6	4 477 826	4 159 929
Consumer debtors	7	43 599 241	55 938 850
Cash and cash equivalents	8	493 700 447	427 265 913
		604 765 066	544 318 341
Non-Current Assets			
Property, plant and equipment	10	3 804 201 119	3 455 403 350
Intangible assets	11	2 549 601	3 510 987
Heritage assets	12	70 716	70 716
		3 806 821 436	3 458 985 053
Total Assets		4 411 586 502	4 003 303 394
Liabilities			
Current Liabilities			
Finance lease obligation	13	874 146	1 418 170
Operating lease liability	14	258 400	206 877
Payables from exchange transactions	15	166 628 411	196 675 362
Employee benefit obligation	16	41 633 546	29 354 525
Unspent conditional grants and receipts	17	-	272 877
		209 394 503	227 927 811
Non-Current Liabilities			
Finance lease obligation	13	-	874 146
Employee benefit obligation	16	107 541 066	127 160 949
		107 541 066	128 035 095
Total Liabilities		316 935 569	355 962 906
Net Assets		4 094 650 933	3 647 340 488
Accumulated surplus		4 094 650 933	3 647 340 488
Total Net Assets		4 094 650 933	3 647 340 488

* See Note 53

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	18	84 041 073	81 787 624
Other income	19	388 680	1 139 777
Interest received	20	91 412 669	62 549 384
Actuarial gains	36	17 302 318	-
Total revenue from exchange transactions		193 144 740	145 476 785
Revenue from non-exchange transactions			
Transfer revenue			
Government grants & subsidies	21	1 148 157 078	1 040 560 715
Fines, Penalties and Forfeits	22	26 301 279	21
Total revenue from non-exchange transactions		1 174 458 357	1 040 560 736
Total revenue	23	1 367 603 097	1 186 037 521
Expenditure			
Employee related costs	24	(353 601 800)	(344 730 324)
Remuneration of councillors	25	(16 329 363)	(14 957 261)
Depreciation and amortisation	26	(75 885 282)	(75 511 141)
Impairments	27	(14 681 705)	(8 719 093)
Lease rentals on operating lease	28	(6 316 254)	(6 245 039)
Finance costs	29	(115 536)	(211 144)
Debt Impairment	30	(77 756 377)	(57 011 291)
Commission paid	31	(37 924 320)	(35 251 703)
Bad debts written off	32	(4 435)	-
Inventories consumed	33	(65 083 489)	(51 596 589)
Inventories losses (water)	2	(30 075 071)	(32 794 299)
Contracted services	34	(96 404 229)	(121 420 497)
Loss on disposal of assets and liabilities	35	(1 906 254)	(831 877)
Actuarial losses	36	-	(4 529 239)
Derecognition of assets	37	(14 338 097)	(9 932 728)
General Expenses	38	(109 650 852)	(94 817 542)
Repairs and maintenance	39	(20 219 588)	(18 567 114)
Total expenditure		(920 292 652)	(877 126 881)
Surplus for the year		447 310 445	308 910 640

* See Note 53

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	3 410 347 266	3 410 347 266
Adjustments		
Prior year adjustments 53	(71 917 418)	(71 917 418)
Balance at 01 July 2021 as restated*	3 338 429 848	3 338 429 848
Changes in net assets		
Surplus for the year	308 910 640	308 910 640
Total changes	308 910 640	308 910 640
Restated* Balance at 01 July 2022	3 647 340 488	3 647 340 488
Changes in net assets		
Surplus for the year	447 310 445	447 310 445
Total changes	447 310 445	447 310 445
Balance at 30 June 2023	4 094 650 933	4 094 650 933

* See Note 53

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Cash Flow Statement

Figures in Rand	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Sale of goods and services		17 029 819	26 881 946
Grants		1 147 036 208	1 036 957 847
Interest income		49 039 343	26 831 331
		<u>1 213 105 370</u>	<u>1 090 671 124</u>
Payments			
Employee costs		(359 628 225)	(346 368 660)
Suppliers		(331 641 183)	(276 678 412)
Finance costs		(115 536)	(211 144)
		<u>(691 384 944)</u>	<u>(623 258 216)</u>
Net cash flows from operating activities	40	<u>521 720 426</u>	<u>467 412 908</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(454 075 828)	(393 063 099)
Proceeds from sale of property, plant and equipment	10	208 106	405 407
Purchase of heritage assets	12	-	(70 716)
Net cash flows from investing activities		<u>(453 867 722)</u>	<u>(392 728 408)</u>
Cash flows from financing activities			
Finance lease payments		<u>(1 418 170)</u>	<u>(1 322 557)</u>
Net increase/(decrease) in cash and cash equivalents		<u>66 434 534</u>	<u>73 361 943</u>
Cash and cash equivalents at the beginning of the year		427 265 913	353 903 970
Cash and cash equivalents at the end of the year	8	<u>493 700 447</u>	<u>427 265 913</u>

* See Note 53

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						Note 58
Service charges	81 552 000	-	81 552 000	84 041 073	2 489 073	3.1%
Other income	1 141 000	(700 000)	441 000	388 680	(52 320)	-11.8%
Interest received - investment	47 284 000	12 000 000	59 284 000	91 412 669	32 128 669	54.2%
Total revenue from exchange transactions	129 977 000	11 300 000	141 277 000	175 842 422	34 565 422	
Revenue from non-exchange transactions						
Transfer revenue						
Government grants & subsidies	1 118 117 000	28 885 000	1 147 002 000	1 148 157 078	1 155 078	0.1%
Fines, Penalties and Forfeits	-	26 604 000	26 604 000	26 301 279	(302 721)	-1.1%
Total revenue from non-exchange transactions	1 118 117 000	55 489 000	1 173 606 000	1 174 458 357	852 357	
Total revenue	1 248 094 000	66 789 000	1 314 883 000	1 350 300 779	35 417 779	
Expenditure						
Personnel	(377 589 000)	(14 496 000)	(392 085 000)	(353 601 800)	38 483 200	9.8%
Remuneration of councillors	(18 484 000)	1 488 000	(16 996 000)	(16 329 363)	666 637	3.9%
Depreciation and amortisation	(79 513 000)	(8 000 000)	(87 513 000)	(75 885 282)	11 627 718	13.3%
Impairment loss/ Reversal of impairments	(21 000 000)	-	(21 000 000)	(14 681 705)	6 318 295	30.1%
Finance costs	(470 000)	-	(470 000)	(115 536)	354 464	75.4%
Lease rentals on operating lease	(10 662 000)	2 200 000	(8 462 000)	(6 316 254)	2 145 746	25.3%
Debt Impairment	(66 231 000)	(11 550 000)	(77 781 000)	(77 756 377)	24 623	-
Bad debts written off	-	-	-	(4 435)	(4 435)	100%
Collection costs	(35 321 000)	(3 650 000)	(38 971 000)	(37 924 320)	1 046 680	2.7%
Inventory consumed	(100 458 000)	31 575 000	(68 883 000)	(65 083 489)	3 799 511	5.5%
Contracted Services	(97 533 000)	(17 724 000)	(115 257 000)	(96 404 229)	18 852 771	16.5%
Loss on disposal of assets	(12 162 000)	10 200 000	(1 962 000)	(1 906 254)	55 746	2.8%
General Expenses	(144 805 000)	(4 117 000)	(148 922 000)	(129 870 440)	19 051 560	12.79%
Total expenditure	(964 228 000)	(14 074 000)	(978 302 000)	(875 879 484)	102 422 516	
Operating surplus	283 866 000	52 715 000	336 581 000	474 421 295	137 840 295	
Actuarial gains/losses	(16 500 000)	16 000 000	(500 000)	17 302 318	17 802 318	3560%
Derecognition of assets	-	(10 200 000)	(10 200 000)	(14 338 097)	(4 138 097)	40.6%
Inventories losses/write-downs	-	(30 085 000)	(30 085 000)	(30 075 071)	9 929	-
	(16 500 000)	(24 285 000)	(40 785 000)	(27 110 850)	13 674 150	
Surplus for the year	267 366 000	28 430 000	295 796 000	447 310 445	151 514 445	

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						Note 59
Current Assets						
Inventories	3 147 000	290 000	3 437 000	7 426 003	3 989 003	116.1%
Receivables from exchange transactions	35 353 000	-	35 353 000	19 180 450	(16 172 550)	-45.7%
Receivables from non-exchange transactions	4 030 000	-	4 030 000	4 029 765	(235)	-
VAT receivable	32 000 000	-	32 000 000	32 351 334	351 334	0.9%
Prepayments	4 500 000	-	4 500 000	4 477 826	(22 174)	-0.5%
Consumer debtors	102 223 000	(49 383 000)	52 840 000	43 599 241	(9 240 759)	-17.5%
Cash and cash equivalents	232 171 000	149 710 000	381 881 000	493 700 447	111 819 447	29.3%
	413 424 000	100 617 000	514 041 000	604 765 066	90 724 066	
Non-Current Assets						
Property, plant and equipment	3 708 999 000	81 749 000	3 790 748 000	3 804 201 119	13 453 119	0.4%
Intangible assets	7 903 000	952 000	8 855 000	2 549 601	(6 305 399)	-71.2%
Heritage assets	-	71 000	71 000	70 716	(284)	-
	3 716 902 000	82 772 000	3 799 674 000	3 806 821 436	7 147 436	
Total Assets	4 130 326 000	183 389 000	4 313 715 000	4 411 586 502	97 871 502	
Liabilities						
Current Liabilities						
Finance lease obligation	874 000	-	874 000	874 146	146	-
Operating lease liability	260 000	-	260 000	258 400	(1 600)	-0.6%
Payables from exchange transactions	288 339 000	(85 750 000)	202 589 000	166 628 410	(35 960 590)	-17.9%
Employee benefit obligation	25 445 000	745 000	26 190 000	41 633 546	15 443 546	58.9%
	314 918 000	(85 005 000)	229 913 000	209 394 502	(20 518 498)	
Non-Current Liabilities						
Employee benefit obligation	69 688 000	3 364 000	73 052 000	107 541 066	34 489 066	47.2%
Total Liabilities	384 606 000	(81 641 000)	302 965 000	316 935 568	13 970 568	
Net Assets	3 745 720 000	265 030 000	4 010 750 000	4 094 650 934	83 900 934	
Reserves						
Accumulated surplus	3 745 720 000	265 030 000	4 010 750 000	4 094 650 933	83 900 933	

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Sale of goods and services	26 326 000	25 904 000	52 230 000	17 029 819	(35 200 181)	Note 60 -67.3%
Grants	1 118 117 000	28 885 000	1 147 002 000	1 147 036 208	34 208	-
Interest income	62 568 000	24 000 000	86 568 000	49 039 343	(37 528 657)	-43.3%
	1 207 011 000	78 789 000	1 285 800 000	1 213 105 370	(72 694 630)	
Payments						
Employee costs	(396 073 000)	1 392 000	(394 681 000)	(359 628 225)	35 052 775	-5.8%
Suppliers	(388 779 000)	(43 345 000)	(432 124 000)	(331 641 183)	100 482 817	-26.1%
Finance costs	(470 000)	-	(470 000)	(115 536)	354 464	-75.4%
	(785 322 000)	(41 953 000)	(827 275 000)	(691 384 944)	135 890 056	
Net cash flows from operating activities	421 689 000	36 836 000	458 525 000	521 720 426	63 195 426	
Cash flows from investing activities						
Purchase of property, plant and equipment	(380 041 000)	(78 959 000)	(459 000 000)	(454 075 828)	4 924 172	-1.1%
Proceeds from sale of property, plant and equipment	-	-	-	208 106	208 106	100%
Net cash flows from investing activities	(380 041 000)	(78 959 000)	(459 000 000)	(453 867 722)	5 132 278	
Cash flows from financing activities						
Finance lease payments	(719 000)	719 000	-	(1 418 170)	(1 418 170)	-100%
Net increase/(decrease) in cash and cash equivalents	40 929 000	(41 404 000)	(475 000)	66 434 534	66 909 534	
Cash and cash equivalents at the beginning of the year	222 525 000	204 741 000	427 266 000	427 265 913	(87)	
Cash and cash equivalents at the end of the year	263 454 000	163 337 000	426 791 000	493 700 447	66 909 447	

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

Figures in Rand	Note(s)	2023	2022
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1. Significant account policies

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

1.1 Basis of preparations

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

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

These accounting policies are consistent with the previous period.

1.2 Presentation currency

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

1.3 Going concern assumption

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

1.4 Materiality

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.

1.5 Significant judgements and sources of estimation uncertainty

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

- ⇒ Useful lives and residual values 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

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

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

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.

Useful lives of waste and water network and other assets

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

Post-retirement benefits

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

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

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

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.

Accounting by principals and agent

The municipality makes assessments on whether it is the principal or agent in principal-agent relationships.

Additional information is disclosed in Note 56.

Materiality

Applying materiality is pervasive to the preparation of financial statements. Materiality is a key consideration in deciding how to apply the Standards of GRAP when preparing the financial statements. Information is material if its omission or misstatement has the potential to influence the decisions of users or affect the discharge of accountability by the entity.

Applying materiality in the preparation of annual financial statements requires the entity to make key assessments and decisions. Key assessments and decisions made in considering materiality, are as follows:

- ⇒ Identification of users and their information needs.
- ⇒ Assessing information based on nature and size, by developing qualitative considerations and quantitative thresholds.
- ⇒ Application of materiality in preparing the financial statements:
 - > Developing accounting policies
 - > Deciding what information to disclose

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

- > Deciding how to present information
- > Assessing omissions, misstatements and errors

The assessments and decisions are considered throughout the financial reporting cycle, and not only when annual financial statements are prepared.

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Machinery and equipment	Straight-line	8-20
Furniture and fixtures	Straight-line	8-20
Motor vehicles	Straight-line	7-20

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1.6 Property, plant and equipment (continued)

Office equipment	Straight-line	1-10
IT equipment	Straight-line	8-23
Computer software	Straight-line	8-11
Community (Buildings)	Straight-line	10-55
Community (Security)	Straight-line	3-10
Copiers/communication equipment	Straight-line	3-6
Emergency equipment	Straight-line	5-8
Communication equipment	Straight-line	3-6
Wastewater network	Straight-line	15-50
Water network	Straight-line	15-55
Water reservoir	Straight-line	30-55

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

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

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

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

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

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

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

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, plant 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, its 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.

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Accounting Policies

1.6 Property, plant and equipment (continued)

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 asset. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

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 transferred to completed assets.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 39).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

1.7 Intangible assets

Initial recognition

An asset is identifiable if it either:

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

An intangible asset is recognised when:

- ⇒ it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- ⇒ the cost or fair value of the asset can be measured reliably.
- ⇒ the municipality intends to complete the intangible asset for use or sale
- ⇒ The municipality has resources to complete the project.

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

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Accounting Policies

1.7 Intangible assets (continued)

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

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

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

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 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.

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.

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

Item	Depreciation method	Average useful life
Computer software	Straight-line	8-11

1.8 Heritage assets

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

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Accounting Policies

1.8 Heritage assets (continued)

Class of heritage assets means a grouping of heritage assets of a similar nature or function in an municipality's operations that is shown as a single item for the purpose of disclosure in the unaudited annual financial statements.

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

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

Value in use of a non-cash-generating asset is the present value of the asset's remaining service potential.

Recognition

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

Initial measurement

Heritage assets are measured at cost.

Subsequent measurement

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

Impairment

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

Derecognition

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

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

1.9 Financial instruments

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

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

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Capricorn District Municipality

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Accounting Policies

1.9 Financial instruments (continued)

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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.

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.

Capricorn District Municipality

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Accounting Policies

1.9 Financial instruments (continued)

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 recent 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.

Financial instruments classified at cost

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

Financial instruments classified at amortised cost

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).

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.

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:

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Accounting Policies

1.9 Financial instruments (continued)

- ⇒ 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)
- ⇒ 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.

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Accounting Policies

1.9 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 cashflow 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 (or 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.

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Accounting Policies

1.9 Financial instruments (continued)

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.

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 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.

Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Consumer debtors	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost

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

Class	Category
Operating lease liability	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Employee benefit obligation	Financial liability measured at fair value

1.10 Statutory receivables

Identification

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

Capricorn District Municipality

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Accounting Policies

1.10 Statutory receivables (continued)

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

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

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

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

- ⇒ if the transaction is an exchange transaction, using the policy on Revenue from exchange transactions;
- ⇒ if the transaction is a non-exchange transaction, using the policy on Revenue from non-exchange transactions (Taxes and transfers); or
- ⇒ if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:

- ⇒ interest or other charges that may have accrued on the receivable (where applicable);
- ⇒ impairment losses; and
- ⇒ amounts derecognised.

Impairment losses

The municipality assesses at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired.

In assessing whether there is any indication that a statutory receivable, or group of statutory receivables, may be impaired, the municipality considers, as a minimum, the following indicators:

- ⇒ Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- ⇒ It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- ⇒ A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).
- ⇒ Adverse changes in international, national or local economic conditions, such as a decline in growth, an increase in debt levels and unemployment, or changes in migration rates and patterns.

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Accounting Policies

1.10 Statutory receivables (continued)

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures the impairment loss as the difference between the estimated future cash flows and the carrying amount. Where the carrying amount is higher than the estimated future cash flows, the carrying amount of the statutory receivable, or group of statutory receivables, is reduced, either directly or through the use of an allowance account. The amount of the losses is recognised in surplus or deficit.

In estimating the future cash flows, an municipality considers both the amount and timing of the cash flows that it will receive in future. Consequently, where the effect of the time value of money is material, the entity discounts the estimated future cash flows using a rate that reflects the current risk-free rate and, if applicable, any risks specific to the statutory receivable, or group of statutory receivables, for which the future cash flow estimates have not been adjusted.

An impairment loss recognised in prior periods for a statutory receivable is revised if there has been a change in the estimates used since the last impairment loss was recognised, or to reflect the effect of discounting the estimated cash flows.

Any previously recognised impairment loss is adjusted either directly or by adjusting the allowance account. The adjustment does not result in the carrying amount of the statutory receivable or group of statutory receivables exceeding what the carrying amount of the receivable(s) would have been had the impairment loss not been recognised at the date the impairment is revised. The amount of any adjustment is recognised in surplus or deficit.

Derecognition

The municipality derecognises a statutory receivable, or a part thereof, when:

- ⇒ the rights to the cash flows from the receivable are settled, expire or are waived;
- ⇒ the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or
- ⇒ the municipality, despite having retained some significant risks and rewards of ownership of the receivable, has transferred control of the receivable to another party and the other party has the practical ability to sell the receivable in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity:
 - derecognise the receivable; and
 - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of any statutory receivables transferred are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. The entity considers whether any newly created rights and obligations are within the scope of the Standard of GRAP on Financial Instruments or another Standard of GRAP. Any difference between the consideration received and the amounts derecognised and, those amounts recognised, are recognised in surplus or deficit in the period of the transfer.

1.11 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

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

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

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

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

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1.11 Leases (continued)

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.

1.12 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;
⇒ distribution at no charge or for a nominal charge; or

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

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

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

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

The cost of inventories is assigned using the weighted average cost formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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.

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1.12 Inventories (continued)

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.

1.13 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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

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

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

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

1.14 Employee benefits

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

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

- an municipality'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.

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

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1.14 Employee benefits (continued)

Short-term employee benefits include items such as:

- ⇒ wages, salaries and social security contributions;
- ⇒ short-term compensated absences (such as paid annual 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

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

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

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

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

Post-employment benefits

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.

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

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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Accounting Policies

1.14 Employee benefits (continued)

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

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

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

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

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

- ⇒ current service cost;
- ⇒ interest cost;
- ⇒ actuarial gains and losses;
- ⇒ past service cost;

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

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

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

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

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.

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Accounting Policies

1.14 Employee benefits (continued)

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 bonus

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.

1.15 Provisions and contingencies

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.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met. The municipality has a detailed formal plan for the restructuring identifying at least:

- ⇒ 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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 43.

1.16 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. Commitments are disclosed including value added tax.

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

Disclosures are required in respect of unrecognised contractual commitments.

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

- ⇒ Contracts should be non-cancelable or only cancelable at significant cost (for example, contracts for computer or building maintenance services); and

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Accounting Policies

1.16 Commitments (continued)

- ⇒ Contracts should relate to something other than the routine, steady, state business of the entity – therefore salary commitments relating to employment contracts or social security benefit commitments are excluded.

1.17 Revenue from exchange transactions

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

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

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

Measurement

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

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

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.

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Accounting Policies

1.17 Revenue from exchange transactions (continued)

Interest income

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

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

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

1.18 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

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1.18 Revenue from non-exchange transactions (continued)

Measurement

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

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

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

Transfers

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

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

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

1.19 Investment income

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

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

Binding arrangement

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

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

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1.20 Accounting by principals and agents (continued)

Assessing which entity benefits from the transactions with third parties

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

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

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

Where the municipality has been granted specific powers in terms of legislation to direct the terms and conditions of particular transactions, it is not required to consider the criteria of whether it does not have the power to determine the significant terms and conditions of the transaction, to conclude that it is an agent.

The municipality applies judgements in determining whether such powers exist and whether they are relevant in assessing whether the municipality is an agent.

Recognition

The municipality, as a principal, recognises revenue and expenses that arise from transactions with third parties in a principal-agent arrangement in accordance with 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.

1.21 Comparative figures

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

1.22 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.23 Fruitless and wasteful expenditure

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

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.

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

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1.24 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure 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. Irregular expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisation's (or equivalent), which is given effect through authorising legislation, appropriation or similar. General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget. The approved budget is prepared on a accrual basis and presented by economic classification linked to performance outcome objectives. The approved budget covers the fiscal period from 2022/07/01 to 2023/06/30.

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

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury and requirements of GRAP 24.

Material variances are variances with a difference of more than 10%.

Comparative information is not required.

1.26 Related parties

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

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

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

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

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

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

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

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

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1.27 Events after reporting date

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

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

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

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

1.28 Living and non-living resources

Living resources are those resources that undergo biological transformation.

Recognition

Non-living resources, other than land, are not recognised as assets. Required information are disclosed in the notes to the annual financial statements.

Where the municipality is required in terms of legislation or similar means to manage a living resource, but it does not meet the definition of an asset because control of the resource cannot be demonstrated, relevant information are disclosed in the notes to the annual financial statements.

1.29 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.

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 be applied 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;

- ⇒ was available when financial statements for those periods were authorised for issue; and
- ⇒ 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.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

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

1.29 Distribution loss (continued)

1.29 Commission expense (continued)

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.

1.30 Value added tax

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

1.31 Distribution loss

Distribution losses are losses that result from differences between purchases and consumption's both billed and estimated.

1.32 Commission expense

Commission expense is accounted for on an accrual basis.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
2. Inventories		
Consumable stores	694 812	801 899
Maintenance materials	6 379 129	2 386 164
Water for distribution	352 062	248 973
	7 426 003	3 437 036
Water for distribution		
Opening balance	248 973	229 032
System input volume	78 628 078	74 336 453
Authorised consumption	(48 449 918)	(41 522 213)
Inventories losses (water)	(30 075 071)	(32 794 299)
Closing balance	352 062	248 973
No inventory have been held as collateral.		
3. Receivables from exchange transactions		
Trade debtors	19 180 450	23 965 557
Receivables from exchange transactions above are as follows:		
Lepelle Nkumpi Local Municipality	18 593 830	20 618 936
Blouberg Local Municipality	586 620	2 539 827
Molemole Local Municipality	-	806 794
	19 180 450	23 965 557
No receivables from exchange transactions have been held as collateral.		
4. Receivables from non-exchange transactions		
Sundry debtors	4 611 181	5 335 105
Provision for impairment	(581 416)	(1 288 458)
	4 029 765	4 046 647
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	1 288 458	2 291 325
Amounts written off as uncollectible	(707 042)	-
Unused amounts reversed	-	(998 867)
Amounts recovered	-	(4 000)
	581 416	1 288 458
No receivables from non-exchange transactions have been held as collateral.		

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
5. VAT receivable		
VAT	32 351 334	25 504 409
6. Prepayments		
Prepaid expenses	4 477 826	4 159 929
2023		
Advance payments made to SALGA for 2023/2024 membership fees, East and West Investment for rental payments and Karibana Traders		
2022		
Advance payments made to SALGA for 2022/2023 membership fees, East and West Investment for rental payments and Alihlolege.		
Prepaid expenses include the following:		
Opening balance	4 159 929	2 714 009
Amount expensed	(4 159 929)	(2 714 009)
Alihlolege	-	64 584
East and west Investment	452 828	448 011
SALGA	3 955 698	3 647 334
Karibana Traders	69 300	-
	4 477 826	4 159 929
7. Consumer debtors		
Gross balances		
Water	522 064 588	447 593 666
Less: Allowance for impairment		
Water	(478 465 347)	(391 654 816)
Net balance		
Water	43 599 241	55 938 850
Water		
Current (0 -30 days)	6 934 784	7 280 998
31 - 60 days	5 077 442	4 663 053
61 - 90 days	2 931 343	2 749 432
91 - 120 days	1 754 432	1 967 891
121+ days	26 901 240	39 277 476
	43 599 241	55 938 850
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	7 728 057	7 006 865
31 - 60 days	8 177 573	6 968 834
61 - 90 days	7 960 574	7 038 467
91 - 120 days	7 373 716	7 292 532
121+ days	464 927 620	390 617 438
	496 167 540	418 924 136
Less: Allowance for impairment	(460 502 052)	(377 086 536)
	35 665 488	41 837 600

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
7. Consumer debtors (continued)		
Industrial/ commercial		
Current (0 -30 days)	569 198	1 070 151
31 - 60 days	522 731	505 986
61 - 90 days	448 012	369 503
91 - 120 days	421 330	388 085
121+ days	21 103 114	18 681 996
	<u>23 064 385</u>	<u>21 015 721</u>
Less: Allowance for impairment	<u>(17 963 294)</u>	<u>(14 568 275)</u>
	5 101 091	6 447 446
National and provincial government		
Current (0 -30 days)	481 940	636 855
31 - 60 days	185 799	241 543
61 - 90 days	149 687	148 440
91 - 120 days	81 322	197 160
121+ days	1 933 917	6 429 810
	<u>2 832 665</u>	<u>7 653 808</u>
Total		
Current (0 -30 days)	8 779 195	8 713 872
31 - 60 days	8 886 104	7 716 362
61 - 90 days	8 558 273	7 556 410
91 - 120 days	7 876 365	7 877 777
121+ days	487 964 650	415 729 245
	<u>522 064 587</u>	<u>447 593 666</u>
Less: Allowance for impairment	<u>(478 465 346)</u>	<u>(391 654 816)</u>
	43 599 241	55 938 850
Less: Allowance for impairment		
Current (0 -30 days)	(1 844 411)	(1 432 872)
31 - 60 days	(3 808 662)	(3 053 309)
61 - 90 days	(5 626 930)	(4 806 978)
91 - 120 days	(6 121 934)	(5 909 886)
121+ days	(461 063 410)	(376 451 771)
	<u>(478 465 347)</u>	<u>(391 654 816)</u>
Reconciliation of allowance for impairment		
Balance at beginning of the year	(391 654 816)	(327 926 917)
Contributions to allowance	(77 760 813)	(57 011 290)
Debt impairment written off against allowance	2 614 403	1 835 085
VAT on impairment	(11 664 121)	(8 551 694)
	<u>(478 465 347)</u>	<u>(391 654 816)</u>

No consumer debtors have been held as collateral.

Consumer debtors impaired

As of **30 June 2023**, consumer debtors of R **522 064 588** (2022: R 447 593 666) were impaired and provided for. The amount of the provision was R (478 465 347) as of **30 June 2023** (2022: R (391 654 816)).

The creation and release of allowance for impaired receivables have been included in operating expenses in the statement of financial performance (note 30).

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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8. Cash and cash equivalents

Cash and cash equivalents consist of:

First National Bank (Primary Bank Account)	17 169 496	1 306 533
Investment Accounts	476 500 037	425 928 466
Cash on hand	30 914	30 914
	493 700 447	427 265 913

The municipality had the following bank accounts

FNB BANK

	Bank statement balances		Cash book balances	
	30 June 2023	30 June 2022	30 June 2023	30 June 2022
Current Account: 620-055-56339	17 169 496	3 341 442	17 169 496	1 306 533

Summary of investments held

ABSA	104 092 083	40 705 302
FNB: Call account	379 671	297 422
FNB: Fixed	39 504 863	-
Nedbank	255 755 864	257 797 795
Standard Bank	76 767 551	127 127 947
	476 500 032	425 928 466

Included in FNB account is a guarantee to Eskom amounting to R294 600 plus interest of R 85 071.

Guarantee	379 671	296 796
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No cash and cash equivalents are held as collateral.

9. Non-living resources

Entity as custodian

The nature of the entity's custodial responsibility, including the legislation or similar means that establishes the custodial responsibility over the resources, are as follows:

- ⇒ The municipality is responsible for the provision of water in terms of section 84(1)(b) of Municipal Structures Act 117 of 1998. 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 arised from non-living resources.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment

	2023		2022	
	Cost / Valuation	Accumulated depreciation and impairment	Carrying value	Cost / Valuation
			Accumulated depreciation and impairment	Carrying value
Land	13 187 500	-	13 187 500	12 407 500
Plant and machinery	26 371 092	(11 545 591)	14 825 501	22 638 342
Furniture and fixtures	16 140 808	(9 176 903)	6 963 905	15 427 780
Motor vehicles	80 367 383	(34 714 098)	45 653 285	79 775 557
IT equipment	18 712 961	(8 452 041)	10 260 920	18 161 841
Infrastructure	3 016 932 052	(775 211 510)	2 241 720 542	2 876 148 871
Community	157 722 476	(38 542 529)	119 179 947	93 217 236
Assets under construction	1 352 825 140	(1 232 136)	1 351 593 004	1 130 390 155
Leased assets	4 139 276	(3 322 761)	816 515	4 139 275
Total	4 686 398 688	(882 197 569)	3 804 201 119	4 252 306 557
			(796 903 207)	3 455 403 350

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

10. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Transfers received	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	12 407 500	-	-	780 000	-	-	-	-	13 187 500
Plant and machinery	12 908 750	3 743 749	(10 630)	-	-	-	(1 816 368)	-	14 825 501
Furniture and fixtures	7 314 541	764 239	(25 241)	-	-	-	(1 089 634)	-	6 963 905
Motor vehicles	48 965 104	2 459 260	(1 215 369)	-	-	-	(4 555 710)	-	45 653 285
IT equipment	11 138 019	660 987	(82 432)	-	-	-	(1 455 654)	-	10 260 920
Infrastructure	2 173 649 145	46 586 849	(780 688)	107 101 403	-	(8 518 982)	(61 797 778)	(14 519 407)	2 241 720 542
Community	57 665 998	740 092	-	63 765 148	-	-	(2 828 993)	(162 298)	119 179 947
Assets under construction	1 129 158 019	399 120 652	-	-	(170 866 552)	(5 819 115)	-	-	1 351 593 004
Leased assets	2 196 274	-	-	-	-	-	(1 379 759)	-	816 515
	3 455 403 350	454 075 828	(2 114 360)	171 646 551	(170 866 552)	(14 338 097)	(74 923 896)	(14 681 705)	3 804 201 119

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Transfers received	Transfers	Other changes, movements	Depreciation	Impairment loss	Total
Land	12 407 500	-	-	-	-	-	-	-	12 407 500
Plant and machinery	12 148 052	2 441 801	-	-	-	-	(1 681 103)	-	12 908 750
Furniture and fixtures	8 290 995	204 110	(14 001)	-	-	-	(1 166 563)	-	7 314 541
Motor vehicles	53 811 834	1 17 818	(389 101)	-	-	-	(4 575 447)	-	48 965 104
IT equipment	10 243 792	2 498 723	(283 843)	-	-	-	(1 320 653)	-	11 138 019
Infrastructure	2 005 649 016	41 324 580	(550 339)	206 007 259	-	(9 932 728)	(61 959 074)	(6 889 569)	2 173 649 145
Community	58 406 691	451 334	-	1 848 280	-	-	(2 442 916)	(597 391)	57 665 998
Assets under construction	992 220 961	346 024 733	-	(207 855 539)	-	-	-	(1 232 136)	1 129 158 019
Leased assets	3 576 031	-	-	-	-	-	(1 379 757)	-	2 196 274
	3 156 754 872	393 063 099	(1 237 284)	-	-	(9 932 728)	(74 525 513)	(8 719 096)	3 455 403 350

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
10. Property, plant and equipment (continued)		
Pledged as security		
No property, plant and equipments are pledged as collaterals.		
Assets subject to finance lease (Net carrying amount)		
Leased assets	816 515	2 196 274
Property, plant and equipment taking longer to complete than expected		
Cumulative expenditure recognised in the carrying value of property, plant and equipment		
Infrastructure	382 345 133	95 248 539
Community	2 026 521	2 026 521
	384 371 654	97 275 060
The district relies mainly on groundwater for potable water supply. The district has been championing forward planning for infrastructure projects and to achieve this, projects planning activities/ milestones takes time before a project can be considered feasible for implementation due to the magnitude of the regional water schemes, and to ensure sustainability and efficiency of water resource to meet current and future water demand of the area. Ground water development and exploration of wellfields/aquifers place a critical role during planning of water supply projects.		
Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
Mapatjakeng Water Supply at planning stage, the source development were completed, technical report were developed and designs are to commence.	1 745 211	8 508 893
2022 Projects at planning stage, the source development were completed, technical report were developed and designs are to commence:		
⇒ Zebediela South (Molapo Water supply)		
⇒ Zebediela South (Magatle Water supply)		
⇒ Mapatjakeng Water Supply		
Groethoek Regional Water Scheme: Makgopong	-	1 929 516
⇒ Technical report developed and designs to commence.		
Sekhung, Vergelen and Springfield WS	876 311	876 311
⇒ Source development completed and development of technical report to commence.		
Blouberg Satellite	2 026 520	2 026 520
⇒ Designs completed		
Madoana and Kwaring Water Supply	7 676 196	-
⇒ Source development, topographical surveys and technical reports complete and at design stage.		
Lebowakgomo RWS Zone A-P (Industrial, MEC Residence)	4 259 350	-
⇒ Technical report stage		
Alldays Oxidation Ponds	701 442	-

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
10. Property, plant and equipment (continued)		
⇒ Sanitation project assessment and feasibility study report completed. Acquisition for purchasing of land being investigated.		
Senwabarwana Oxidation Ponds	6 318 127	-
⇒ Sanitation project assessment, feasibility study report and designs completed. EIA in progress.		
Flora, RammutlaB, WSIG Bognafarm, Kgatla and Kobe	7 183 238	-
⇒ 5 Project for WSIG at planning stage		
	30 786 395	13 341 240
Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)		
Construction stage:		
Mankodi A & B, Groethoek Ntamaties, Pax Village, Pax and Brana Package plant	26 843 380	11 884 221
⇒ Projects are awaiting electrification by Eskom.		
Nyakelane WS	27 053 598	22 310 398
⇒ Project was vandalised and impaired.		
Grootpan, Sias, Londen WS	-	17 186 722
⇒ Project at construction stage		
Driekoppies, Zebediela(Mehlareng) and Zebediela(Malatane)	-	6 875 159
⇒ Projects at construction and design stage.		
Groethoek RWS Ledwaba Matome Makotse	1 488 125	1 488 125
⇒ Geohydrological report completed		
Maribana WS, Groethoek RWS:Mogoto, Ga-Kibi(Royston) WS, Zebediela South (Khureng WS), Zebediela South (Malatane WS), Bosehla, Groethoek RWS: Rakgwatha and Groethoek RWS: Makgopong	58 948 992	17 568 092
⇒ Project in design stage.		
Overdyke Village Water Supply	-	872 627
⇒ Project expenditure incurred.		
Alldays BWS	5 748 472	5 748 472
⇒ Technical report developed. Acquisition for purchasing of land being investigated.		
Mphahlele RWS(Maijane & Sefalaolo), Thalahane WS, Groethoek RWS Motserereng, Phasha WS, Sefene WS, Stocks RWS Motantanyane and Mathabatha/Tongwane BWS	200 731 496	-
⇒ Planning completed.		
Mafele RWS Mahlatjane, Mankela	32 771 194	-
⇒ Project source development, topographical surveys, technical reports developed and designs completed.		
	353 585 257	83 933 816

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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10. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2023

	Included within Infrastructure	Included within Community	Total
Opening balance	1 078 212 719	50 945 302	1 129 158 021
Additions/capital expenditure	388 475 123	10 645 529	399 120 652
Derecognition	(5 819 116)	-	(5 819 116)
Transferred to completed items	(111 747 500)	(59 119 051)	(170 866 551)
	1 349 121 226	2 471 780	1 351 593 006

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Community	Total
Opening balance	946 001 546	46 219 415	992 220 961
Additions/capital expenditure	341 298 846	4 725 887	346 024 733
Impairments	(1 232 136)	-	(1 232 136)
Transferred to completed items	(207 855 537)	-	(207 855 537)
	1 078 212 719	50 945 302	1 129 158 021

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

Repairs and maintenance	20 219 588	18 567 114
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11. Intangible assets

	2023			2022		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	7 227 696	(4 678 095)	2 549 601	8 258 556	(4 747 569)	3 510 987

Reconciliation of intangible assets - 2023

	Opening balance	Amortisation	Total
Computer software	3 510 987	(961 386)	2 549 601

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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11. Intangible assets (continued)

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer software	4 496 616	(985 629)	3 510 987

Pledged as security

No intangible assets are pledged as security.

12. Heritage assets

	2023			2022		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Jewellery	70 716	-	70 716	70 716	-	70 716

Reconciliation of heritage assets 2023

	Opening balance	Additions	Total
Jewellery	70 716	-	70 716

Reconciliation of heritage assets 2022

	Opening balance	Additions	Total
Jewellery	-	70 716	70 716

Age and/or condition of heritage assets

The mayoral chain was procured in 2022 and is still in a excellent condition.

Heritage assets borrowed from other entities

No heritage assets were borrowed from other entities.

Heritage assets on loan to other entities

No heritage assets were loaned to other entities.

Pledged as security

No heritage assets were pledged as security.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
13. Finance lease obligation		
Minimum lease payments due		
- within one year	894 661	1 533 706
- in second to fifth year inclusive	-	894 661
	<u>894 661</u>	<u>2 428 367</u>
less: future finance charges	(20 515)	(136 051)
Present value of minimum lease payments	<u>874 146</u>	<u>2 292 316</u>
Present value of minimum lease payments due		
- within one year	874 146	1 418 170
- in second to fifth year inclusive	-	874 146
	<u>874 146</u>	<u>2 292 316</u>
Non-current liabilities	-	874 146
Current liabilities	874 146	1 418 170
	<u>874 146</u>	<u>2 292 316</u>
It is municipality policy to lease computer equipment(printers) under finance leases. The average lease term was 3 years and the average effective borrowing rate was 7% (2022: 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	<u>675 618</u>	<u>545 019</u>
14. Operating lease liability		
Current liabilities	<u>258 400</u>	<u>206 877</u>
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.		
MTN Offices		
The municipality is renting office space. The contract commenced on 01 September 2021 for a period of 3 years and will expire on 31 August 2024.		
Mangkweng storage		
The municipality is renting storage space. The contract commenced on 01 January 2023 for a period of 3 years and will expire on 31 December 2025.		
15. Payables from exchange transactions		
Trade payables	30 167 667	58 241 700
Retention	119 066 188	124 629 635
Good received notes	5 155 998	1 321 295
Salary accruals	5 999 805	6 478 709
13th Cheque bonus accrual	5 830 656	5 693 231
Deposits received	381 060	310 792
Molemole local municipality	27 037	-
	<u>166 628 411</u>	<u>196 675 362</u>

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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16. Employee benefit obligations

Post retirement medical aid plan

The primary purpose of this valuation is to enable the Municipality to comply with the requirements of GRAP 25. The liability amounts are calculated in accordance with GRAP 25 and the related actuarial practice guidance note (APN 301) of the Actuarial Society of South Africa and can therefore be used in the compilation of the Annual Financial Statements of the Municipality.

The effective date used for the purposes of this valuation is 30 June 2023 (herein after referred to as the "Valuation Date").

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 future levels of assumed variables such as medical aid inflation. The impact of deviations between actual experience and the assumptions made can be found in the sensitivity analysis section.

Movement in the employee health-care liability

Liability as at 1 July	82 937 000	67 913 000
Benefits paid	(1 043 000)	(778 000)
Interest cost	10 073 000	7 451 000
Current service cost	5 329 000	4 309 000
Actuarial losses/ (gain)	(14 482 000)	4 042 000
	82 814 000	82 937 000
Current portion of liability	15 798 000	15 402 000
Non-current portion of liability	67 016 000	67 535 000
	82 814 000	82 937 000
Amounts recognised in the annual financial statements		
Interest cost	10 073 000	7 451 000
Current Service Cost	5 329 000	4 309 000
Actuarial losses/(gains)	(14 482 000)	4 042 000
	920 000	15 802 000

Membership Data

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

	Current year valuation	Prior year valuation
Current (In Service) Members	428	445
Continuation Members (Pensioners)	16	12
	444	457

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

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16. 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:

Accrued liability	Current year valuation	Prior year valuation
Current (In Service) Members	71 981 000	74 206 000
Continuation Members (Pensioners)	10 833 000	8 731 000
	82 814 000	82 937 000

Interest cost

The interest cost represents the accrual of interest on the Accrued Liability, allowing for benefit payments, over the corresponding year. This arises because the post-employment medical aid scheme contributions are one year closer to payment. This item should be accounted for in the Statement of Financial Performance 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.

Interest and service costs	Current year valuation To be used in the 2024 actuarial loss/(gain) calculation	Prior year valuation To be used in the 2023 actuarial loss/(gain) calculation
Interest cost	10 932 000	10 073 000
Current service cost	4 866 000	5 329 000
	15 798 000	15 402 000

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.

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16. Employee benefit obligations (continued)

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

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:

	Assumed value current year valuation	Assumed value prior year 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 2023** 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.

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16. Employee benefit obligations (continued)

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.

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.

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

The table below provides a summary of details for active employees.

Active employees (in-service)	Male	Female	Total
Number of active employees	242	186	428
Subsidy weighted average age	48.2	46.3	47.6
Subsidy weighted average past service	14.0	14.7	14.2
Average monthly subsidy	R 5 780	R 3 450	R 4 760

The table below provides a summary of details for continuation members.

Continuation members (pensioners)	Male	Female	Total
Number of continuation members	13	3	16
Subsidy weighted average age	71.5	60.9	69.9
Average monthly subsidy	R 5 700	R 4 280	R 5 430

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16. Employee benefit obligations (continued)

Medical Aid Scheme Arrangements

The Municipality offers employees and continuation members (pensioners) the opportunity of belonging to one of several medical aid schemes, most of which offer a range of options pertaining to levels of cover. Upon retirement, an employee may continue membership of the medical aid scheme.

Contribution Rate Structure

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Subsidy Arrangements

The Municipality has agreed to subsidise the medical aid contributions of retired members in the following way:

- ⇒ The Municipality will subsidise a percentage of the medical scheme contributions of retired staff members and their dependants.
- ⇒ Existing continuation members will continue to receive a 70% subsidy.
- ⇒ The maximum subsidy cap as prescribed by SALGA was ignored as this was not currently being applied to some of the pensioners in the data.

Detailed results

The section below compares the figures between the valuation dates and summarises the primary reasons for the changes in the liabilities since the last valuation. Changes to current membership (in-service membership) as at the valuation dates.

Changes to current membership (in-service membership)	Current year valuation	Prior year valuation	% Change
Number of active employees	428	445	(3.8)%
Proportion male	57 %	56 %	0.6 %
Subsidy weighted average age	47.6	46.5	2.4 %
Subsidy weighted average past service	14.17	14.01	1.1 %
Average monthly subsidy	R 4 760	R 4 040	17.8 %

Changes to continuation membership (pensioners' membership)	Current year valuation	Prior year valuation	% Change
Number of principal members	16	12	33.3 %
Proportion male	81 %	50 %	62.5 %
Subsidy weighted average age	69.92	71.03	(1.6)%
Average monthly subsidy	R 5 430	R 5 400	0.6 %

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16. Employee benefit obligations (continued)

The combined accrued liability is built-up as follows from the previous valuation

Actuarial Loss/(Gain)	Amount
Accrued Liability as at 30 June 2022	82 937 000
Current Service Cost (As calculated at 30 June 2022)	5 329 000
Interest Cost (As calculated at 30 June 2022)	10 073 000
Benefits Paid *	(1 043 000)
Actuarial Loss/(Gain)	(14 482 000)
	82 814 000

Actuarial Loss/(Gain)

The main reasons for the actuarial gain can be attributed to the following factors:

- ⇒ **Changes in economic variables** – We used the nominal and real yield curves as at 30 June 2023 to calculate the discount rates used in the valuation. There were various changes in interest rates since the previous valuation. This resulted in an overall **decrease** in liability of around **R 15 043 000**.
- ⇒ **Membership changes and other experience items** – Membership and other demographic changes were different to what was expected in the previous valuation. This resulted in a **increase** in liability of around **R561 000**.

Sensitivity analysis

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 the results to changes in certain key variables, the liabilities have been recalculated using the following assumptions:

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

Mortality rate

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

	-1% Normal salary inflation	Valuation assumption	+1% Normal salary inflation
Total accrued liability	90 586 000	82 814 000	76 352 000
Interest cost	11 967 000	10 932 000	10 072 000
Service cost	5 350 000	4 866 000	4 461 000

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.

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16. Employee benefit obligations (continued)

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

	-1% Normal salary inflation	Valuation assumption	+1% Normal salary inflation
Total accrued liability	70 691 000	82 814 000	97 705 000
Interest cost	9 314 000	10 932 000	12 922 000
Service cost	4 037 000	4 866 000	5 904 000

GRAP 25 Compliance tables

GRAP 25 deals with the recognition of the cost of employee benefits, on an accruals basis, in accounts. Assuming that the post-employment medical aid subsidy policy stays the same and that the actuarial assumptions are borne out in practice the Municipality's unfunded accrued liability and future service cost can be projected as follows:

Changes in the value of the obligation	Current valuation as at 30 June	1 Year following the valuation date	2 Year following the valuation date	3 Year following the valuation date
PV of the obligation as at the previous valuation date	82 937 000	82 814 000	97 464 000	114 571 000
Current service cost	5 329 000	4 866 000	5 494 000	6 203 000
Interest cost	10 073 000	10 932 000	12 856 000	15 105 000
Benefits paid	(1 043 000)	(1 148 000)	(1 243 000)	(1 322 000)
Actuarial loss/(gain)	(14 482 000)	-	-	-
PV of the obligation as at the current valuation date	82 814 000	97 464 000	114 571 000	134 557 000

Amounts recognised in the annual financial statements	-1% Normal salary inflation	Valuation assumption	+1% Normal salary inflation	3 Year following the valuation date
Liability recognised in the statement of financial position	82 814 000	97 464 000	114 571 000	134 557 000
Current service cost in the statement of financial performance	5 329 000	4 866 000	5 494 000	6 203 000
Interest cost in the statement of financial performance	10 073 000	10 932 000	12 856 000	15 105 000
Actuarial loss/(gain) recognised	(14 482 000)	-	-	-

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.

ZAQ Consultants and Actuaries have performed an actuarial valuation of the liability in respect of the long service awards. The primary purpose of this valuation is to enable the Municipality to comply with the requirements of GRAP 25. The liability amounts are calculated in accordance with GRAP 25 and can therefore be used in the compilation of the Annual Financial Statements of the Municipality.

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16. Employee benefit obligations (continued)

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	20 657 000	18 422 000
Benefits paid	(3 140 682)	(1 396 932)
Current service cost	1 439 000	1 452 000
Interest	2 253 000	1 510 000
Actuarial losses/(gains)	(2 820 318)	669 932
Accrued Defined Benefit Obligation (ADBO)	18 388 000	20 657 000
Current portion of liability	3 534 000	3 692 000
Non-current portion of liability	14 854 000	16 965 000
	18 388 000	20 657 000

Expense recognised in Statement of Financial Performance

Current service cost	1 439 000	1 452 000
Interest cost	2 253 000	1 510 000
Actuarial losses/ (gains)	(2 820 318)	669 932
	871 682	3 631 932

Membership data

The number of members entitled to receive long service leave awards from the municipality were:

Gender	Number of active employees	Salary weighted average age (years)	Weighted average past service(years)
Male	280	48.65	16.89
Female	202	45.44	15.75
	482		

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 Liability

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:

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16. Employee benefit obligations (continued)

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.

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.

Valuation Assumptions

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:

	Assumed value Current year valuation	Assumed value Prior year 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**

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16. Employee benefit obligations (continued)

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."

We use the nominal and real zero curves as at **30 June 2023** 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.

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 2023 of 5.4%. The next salary increase was assumed to take place on 01 July 2024.

Promotional Salary Increase Rates

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

Age band	Promotional increase
20-24	5%
25 - 29	4%
30 - 34	3%
35 - 39	2%
40 - 44	1%
45 and over	0%

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.

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16. Employee benefit obligations (continued)

Withdrawal Decrements

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

Age band	Withdrawal rate male	Withdrawal rate female
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 +	0%	0%

Valuation input data

Eligible male employees - age band	Number of employees	Average annual salary	Salary weighted average past service (years)	Average accrued liability
20 - 29	0	-	0	-
30 - 39	56	363 621	8.64	25 780
40 - 49	76	440 745	14.77	53 243
50 - 59	113	356 508	20.12	3 375
60 +	35	333 980	26.26	6 317
Total	280	377 979		34 109

Eligible female employees - age band	Number of employees	Average annual salary	Salary weighted average past service (years)	Average accrued liability
20 - 29	1	249 890	0.99	559
30 - 39	49	428 624	10.34	36 725
40 - 49	86	436 250	14.94	54 106
50 - 59	55	390 976	20.65	42 693
60 +	11	287 428	29.15	1 792
Total	202	413 046		43 668

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16. Employee benefit obligations (continued)

Total eligible employees - age band	Number of employees	Average annual salary	Salary weighted average past service (years)	Average accrued liability
20 - 29	1	249 890	0.99	559
30 - 39	105	393 956	9.50	30 887
40 - 49	162	442 704	14.75	53 804
50 - 59	168	367 792	20.30	36 829
60 +	46	322 848	26.87	5 235
Total	482	394 136		38 149

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 Financial Performance 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.

Actuarial Loss/(Gain)

The main reasons for the actuarial gain can be attributed to the following factors:

- ⇒ **Changes in economic variables** – The nominal and real zero curves as at 30 June 2023 was used as supplied by the JSE to determine the discount rates and CPI assumptions at each relevant time period. As a result, the interest rates, bond yields and inflation figures changed significantly. This resulted in a **decrease** in liability of around **R 1 366 000**.
- ⇒ **Salary inflation** – The actual salary inflation turned out to be **lower** than expected. This resulted in a **decrease** in the liability of around **R525 000**.
- ⇒ **Membership and other experience items** – Membership and other demographic changes were different to what was expected as at the previous valuation. The net effect of this and other smaller changes resulted in a **decrease** in liability of around **R 929 318**.

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:

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

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16. Employee benefit obligations (continued)

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:

	-1% Normal salary inflation	Valuation assumption	+1% Normal salary inflation
Total accrued liability	19 088 000	18 388 000	17 735 000
Current service cost	1 307 000	1 243 000	1 185 000
Interest cost	2 385 000	2 291 000	2 203 000

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.

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

	-1% Normal salary inflation	Valuation assumption	+1% Normal salary inflation
Total accrued liability	17 371 000	18 388 000	19 492 000
Current service cost	1 165 000	1 243 000	1 330 000
Interest cost	2 154 000	2 291 000	2 439 000

GRAP 25 Compliance Tables

GRAP 25 deals with the recognition of the cost of employee benefits, on an accruals basis, in company accounts.

If assumed that the long service award benefit policy of the Municipality remains unchanged over the next 36 months, a projection of the Municipality's unfunded accrued liability and future service cost can be seen as follows:

Changes in the value of obligation	Current valuation as at 30 June	Year 1 following the valuation date	Year 2 following the valuation date	Year 3 following the valuation date
Liability recognised in the balance sheet	20 657 000	18 388 000	20 768 000	22 495 171
Current service cost	1 439 000	1 243 000	1 356 989	1 486 812
Interest cost	2 253 000	2 291 000	2 623 182	2 754 933
Benefits paid	(3 140 682)	(1 154 000)	(2 253 000)	(3 796 000)
Actuarial Loss/ (Gain)	(2 820 318)	-	-	-
	18 388 000	20 768 000	22 495 171	22 940 916

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16. Employee benefit obligations (continued)

Amounts recognised in the annual financial statements	-1% Normal salary inflation	Valuation assumption	+1% Normal salary inflation	3 Year following the valuation date
Liability recognised in the statement of financial position	18 429 000	20 768 000	22 495 171	22 940 000
Current service cost in the statement of financial performance	1 439 000	1 243 000	1 356 989	1 486 811
Interest cost in the statement of financial performance	2 253 000	2 301 000	2 629 766	2 762 366
Actuarial loss/(gain) recognised	(2 820 318)	-	-	-

Leave Days Provision

There is no standard actuarial formula that prescribes the way in which the accrued leave days balance should be broken down between short-term and long-term components. The Municipality will follow an approach that is consistent with its past experience.

No discounting is applied to the calculation of the Annual Leave provisions. The leave provision is based on the estimated 1 July 2023 Salaries after allowing for an estimated salary increase of 5.4%. 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 2024 (long-term portion).

In order to calculate the short-term and long-term components of the accrued leave days provisional liability it was assumed that:

- ⇒ Employees reaching the expected retirement age of 63 over the coming year would cash in their accrued leave days balances in full;
- ⇒ Employees resigning from service would cash-in their accrued leave days balances in full; and
- ⇒ Other employees that remain in service would take their full 24 leave days in the coming year and hence keep their accrued leave balance unchanged.

It was assumed that all employees will take up leave to avoid the forfeiture of leave days. Employees that resign or retire over the coming year will have their leave balance cashed on resignation/retirement. It was assumed 250 working days per year for the purpose 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 male	Withdrawal rate female
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 +	0%	0%

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16. Employee benefit obligations (continued)

The number of members entitled to receive leave days from the municipality were:

Gender	Number of active employees	Salary weighted average age (years)	Weighted average past service
Male	289	47.99	14.88
Female	212	44.86	14.42
	501		

Movement in the leave day provision

Liability as at 1 July	45 787 473	46 434 373
Net accrued leave days over the years	(1 299 420)	1 542 645
Benefits paid	(3 077 442)	(2 189 545)
	41 410 611	45 787 473

Current portion of liability	15 739 544	3 126 525
Non-current portion of liability	25 671 067	42 660 949
	41 410 611	45 787 474

Performance bonus

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 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. Performance bonus is paid in line with the municipalities performance management system.

Reconciliation of all employee benefit obligations

As at 30 June current year	Opening balance	Additions	Utilised during the year	Total
Performance	7 134 000	6 562 000	(7 134 000)	6 562 000
Provision for leave	45 787 473	(1 299 421)	(3 077 442)	41 410 610
Post employment medical benefits	82 937 000	920 000	(1 043 000)	82 814 000
Long service awards	20 657 000	871 682	(3 140 682)	18 388 000
	156 515 473	7 054 261	(14 395 124)	149 174 610

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16. Employee benefit obligations (continued)

As at 30 June prior year

	Opening balance	Additions	Utilised during the year	Total
Performance	6 667 000	7 134 000	(6 667 000)	7 134 000
Provision for leave	46 434 374	1 542 645	(2 189 546)	45 787 473
Post employment medical benefits	67 913 000	15 802 000	(778 000)	82 937 000
Long service awards	18 422 000	3 631 932	(1 396 932)	20 657 000
	139 436 374	28 110 577	(11 031 478)	156 515 473

Non-current liabilities	107 541 066	127 160 949
Current liabilities	41 633 546	29 354 525
	149 174 612	156 515 474

17. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Rural Roads Asset Management System Grant	-	272 877
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Movement during the year

Balance at the beginning of the year	-	272 877
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The nature and extent of government grants recognised in the annual financial statements and an indication of other forms of government assistance from which the municipality has directly benefited; and

Unfulfilled conditions and other contingencies attaching to government assistance that has been recognised. See note for reconciliation of grants from National/Provincial Government. These amounts are invested in a ring-fenced investment until utilised.

18. Service charges

Sale of water	72 035 783	70 669 911
Sewerage and sanitation charges	12 005 290	11 117 713
	84 041 073	81 787 624

19. Other income

Other income	388 680	1 139 777
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20. Investment revenue

Bank	49 039 343	26 831 331
Interest charged on trade and other receivables	42 373 326	35 718 053
	91 412 669	62 549 384

Total interest income, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R49 039 343 (PY: R26 831 331).

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
21. Government grants & subsidies		
Operating grants		
Equitable share	730 231 878	666 268 999
Finance Management Grant	1 000 000	1 000 000
LG Seta	592 208	617 612
Rural Roads Asset Management Grant	3 191 000	3 418 634
Expanded Public Works Programme Integrated Grant	3 747 000	3 866 000
Municipal Infrastructure Grant	20 380 726	37 425 141
Water Services Infrastructure Grant	7 274 913	1 551 277
Disaster Relief Grant	-	595 234
	766 417 725	714 742 897
Capital grants		
Municipal Infrastructure Grant	223 166 274	207 220 859
Water Services Infrastructure Grant	157 725 087	118 448 723
Public sector donation	847 992	148 236
	381 739 353	325 817 818
	1 148 157 078	1 040 560 715
Conditional and Unconditional		
Included in above are the following grants and subsidies received:		
Conditional grants received	416 485 000	374 291 716
Unconditional grants received	731 672 078	666 268 999
	1 148 157 078	1 040 560 715
Equitable Share		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
Disaster Relief Grant		
Balance unspent at beginning of year	-	595 234
Conditions met - transferred to revenue	-	(595 234)
	-	-
LG Seta Grant		
Current-year receipts	592 208	617 612
Conditions met - transferred to revenue	(592 208)	(617 612)
	-	-
Water Services Infrastructure Grant		
Current-year receipts	165 000 000	120 000 000
Conditions met - transferred to revenue	(165 000 000)	(120 000 000)
	-	-

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
21. Government grants & subsidies (continued)		
Municipal Infrastructure Grant		
Current-year receipts	243 547 000	244 646 000
Conditions met - transferred to revenue	(243 547 000)	(244 646 000)
	-	-
Financial Management Grant		
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 000 000)	(1 000 000)
	-	-
Rural Roads Asset Management Grant		
Balance unspent at beginning of year	272 877	3 280 511
Current-year receipts	3 191 000	2 475 000
Conditions met - transferred to revenue	(3 191 000)	(3 418 634)
Funds returned to National Treasury	(272 877)	(2 064 000)
	-	272 877
Expanded Public Works Programme Integrated Grant		
Current-year receipts	3 747 000	3 866 000
Conditions met - transferred to revenue	(3 747 000)	(3 866 000)
	-	-
22. Fines, Penalties and Forfeits		
Retentions Forfeits	26 301 279	21
Retentions amounting to R 26 301 279 accumulated on old infrastructure projects were approved by Council and written back to the Statement of Financial Performance.		
23. Revenue		
Service charges	84 041 073	81 787 624
Other income	388 680	1 139 777
Interest received - investment	91 412 669	62 549 384
Government grants & subsidies	1 148 157 078	1 040 560 715
Fines, Penalties and Forfeits	26 301 279	21
	1 350 300 779	1 186 037 521
The amount included in revenue arising from exchanges of goods or services are as follows:		
Service charges	84 041 073	81 787 624
Other income	388 680	1 139 777
Interest received - investment	91 412 669	62 549 384
	175 842 422	145 476 785

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
23. Revenue (continued)		
The amount included in revenue arising from non-exchange transactions is as follows:		
Transfer revenue		
Government grants & subsidies	1 148 157 078	1 040 560 715
Fines, Penalties and Forfeits	26 301 279	21
	1 174 458 357	1 040 560 736
24. Employee related costs		
13th Cheques	15 286 879	14 672 711
Bargaining Council	64 370	76 390
Basic	200 137 362	195 529 012
Car allowance	20 781 161	19 963 870
Housing benefits and allowances	2 066 966	2 118 362
Leave pay provision charge	(1 118 745)	1 542 645
Long-service awards	3 648 400	2 962 000
Medical aid - company contributions	16 793 329	16 287 494
Overtime payments	27 706 904	26 970 968
Pension fund contribution	37 991 953	36 832 724
Performance bonus	6 562 000	7 134 000
Termination benefits	15 268 739	11 948 378
UIF	1 129 316	1 159 216
	346 318 634	337 197 770
Remuneration of Municipal Manager		
Annual Remuneration	1 352 276	458 067
Car and cell phone allowance	168 000	18 333
Performance Bonuses	-	6 595
Contributions to UIF, Medical and Pension Funds	236 910	-
	1 757 186	482 995
Remuneration of Chief Finance Officer		
Annual Remuneration	388 923	1 033 964
Car and cell phone allowance	127 928	120 000
Performance Bonuses	32 449	38 951
Contributions to UIF, Medical and Pension Funds	58 399	77 837
	607 699	1 270 752
Acting allowances of R 98 032 was paid during 2022/23.		
Remuneration of Development, Economic and Planning Management Services		
Annual Remuneration	707 276	1 057 059
Car and cell phone allowance	147 000	276 000
Performance Bonuses	45 428	38 951
Contributions to UIF, Medical and Pension Funds	80 778	118 268
	980 482	1 490 278

Resigned on 27 January 2023. Acting allowances of R 43 232 was paid during 2022/23.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
24. Employee related costs (continued)		
Remuneration of Strategic Support Services		
Annual Remuneration	229 136	1 118 501
Car and cell phone allowance	15 000	204 000
Performance Bonuses	45 428	51 935
Contributions to UIF, Medical and Pension Funds	12 675	128 930
	302 239	1 503 366
Resigned on 31 July 2023. Acting allowance of R 92 084 was paid during 2022/23.		
Remuneration of Corporate Services		
Annual Remuneration	748 922	517 273
Car and cell phone allowance	180 000	136 000
Contributions to UIF, Medical and Pension Funds	208 387	119 041
	1 137 309	772 314
Acting allowance of R 14 835 was paid during 2022/23.		
Remuneration of Community Services		
Annual Remuneration	729 460	458 542
Car and cell phone allowance	180 000	136 000
Performance Bonuses	22 385	-
Contributions to UIF, Medical and Pension Funds	212 800	124 845
	1 144 645	719 387
Remuneration of Technical Services		
Annual Remuneration	935 590	880 846
Car and cell phone allowance	240 000	264 000
Performance Bonuses	28 216	28 225
Contributions to UIF, Medical and Pension Funds	149 800	120 391
	1 353 606	1 293 462
Total employee related costs	353 601 800	344 730 324
25. Remuneration of councillors		
Executive Major	1 137 470	956 528
Chief Whip	856 804	775 806
Speaker	577 401	640 499
Section 79 committee chairperson	831 880	597 720
Mayoral Committee Members	4 747 953	4 112 698
Councillors	8 177 855	7 874 010
	16 329 363	14 957 261

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
25. Remuneration of councillors (continued)		
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. The Executive Mayor has use of a Council owned vehicle for official duties.		
The Speaker have the use of separate Council owned vehicles for official duties.		
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.		
26. Depreciation and amortisation		
Property, plant and equipment	74 923 896	74 525 513
Intangible assets	961 386	985 628
	75 885 282	75 511 141
27. Impairment loss		
Property, plant and equipment	14 681 705	8 719 093
28. Lease rentals on operating lease		
Contractual amounts	6 316 254	6 245 039
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.		
MTN Offices		
The municipality is renting office space. The contract commenced on 01 September 2021 for a period of 3 years and will expire on 31 August 2024.		
Mangkweng storage		
The municipality is renting storage space. The contract commenced on 01 January 2023 for a period of 3 years and will expire on 31 December 2025.		
Operating leases - as lessee (expense)		
Minimum lease payments due		
- within one year	4 728 122	4 055 242
- in second to fifth year inclusive	2 112 225	4 503 552
	6 840 347	8 558 794
29. Finance costs		
Finance leases	115 536	211 144
Total interest expense, calculated using the effective interest rate, on financial instruments not at fair value through surplus or deficit amounted to R 115 536 (2022: R 211 144).		

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
30. Debt impairment		
Debt impairment	77 756 377	57 011 291
31. Commission paid		
Commission paid	37 924 320	35 251 703
32. Bad debts written off		
Bad debts written off	4 435	-
33. Inventories consumed		
Water	48 449 918	41 522 213
Material and supplies	16 633 571	10 074 376
	65 083 489	51 596 589
Water losses		
Units purchased	8 249 460	8 474 273
Units consumed	(4 598 900)	(4 671 527)
Total	3 650 560	3 802 746
Losses %	38.30 %	38.86 %
34. Contracted services		
Outsourced Services		
Alien Vegetation Control	1 744 698	987 185
Business and Advisory	80 960	369 371
Catering Services	1 963	1 801 925
Cleaning Services	597 496	571 745
Clearing and Grass Cutting Services	-	270 486
Fire Services	24 690	-
Personnel and Labour	280 150	24 760
Professional Staff	3 457 421	4 372 158
Revenue collection	7 951 775	2 333 837
Security Services	21 639 457	20 583 092
Sewerage Services	-	44 642 705
	35 778 610	75 957 264
Consultants and Professional Services		
Business and Advisory	3 731 848	5 797 806
Laboratory Services	3 456 512	2 730 522
Legal Cost	12 776 526	7 332 697
	19 964 886	15 861 025

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
34. Contracted services (continued)		
Contractors		
Catering Services	3 664 515	1 032 711
Employee Wellness	340 410	1 048 088
Fire Protection	142 992	1 399 430
Pest Control and Fumigation	46 317	66 306
Sewerage Services	36 297 999	25 932 204
Sports and Recreation	168 500	123 469
	40 660 733	29 602 208
	96 404 229	121 420 497
35. Loss on the disposal of assets		
Loss on disposal of assets	1 906 254	831 877
36. Actuarial (gains)/losses		
Actuarial (gain)/losses	(17 302 318)	4 529 239
37. Derecognition of assets		
Derecognition of assets	14 338 097	9 932 728
2023		
The amount relates to redundant operational and maintenance assets replaced.		
2022		
The amount relates to redundant operational and maintenance assets replaced.		
38. General expenses		
Advertising	1 941 380	1 563 119
Auditors remuneration	3 916 737	3 619 245
Bank charges	140 512	142 072
Bursaries	987 688	634 644
Community development and training	161 074	273 948
Conferences and seminars	4 324 468	3 308 929
Free basic water	31 878 898	31 288 924
IT expenses	6 830 361	5 937 357
Insurance	2 576 380	1 890 645
Municipal charges	1 618 750	1 920 658
Fleet	3 615 590	-
Postage and courier	954	867
Printing and stationery	1 170 412	1 491 127
Protective clothing	-	3 323 904
Skills development levies	2 957 214	2 814 433
Subscriptions and membership fees	4 046 844	2 391 808
Telephone and fax	1 621 900	1 662 647
Travel - local	20 274 862	15 660 524
Fuel and oil	20 029 968	15 560 915
Workman's compensation fund	1 556 860	1 331 776
	109 650 852	94 817 542

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
39. Repairs and maintenance		
Repairs and maintenance infrastructure	13 511 728	13 188 448
Repairs and maintenance non-infrastructure	6 707 860	5 378 666
	20 219 588	18 567 114
40. Cash generated from operations		
Surplus	447 310 445	308 910 640
Adjustments for:		
Depreciation and amortisation	75 885 282	75 511 141
Loss on sale of assets	1 906 254	831 877
Derecognition of assets	14 338 097	9 932 728
Impairment deficit	14 681 705	8 719 093
Debt impairment	77 756 377	57 011 291
Bad debts written off	4 435	-
Straight-lining of operating leases	51 523	104 704
Collection costs	37 924 320	35 251 703
Bulk purchases	65 083 489	51 596 589
Inventories losses (water)	30 075 071	32 794 299
Actuarial gains/losses	(17 302 318)	4 529 239
Performance bonus raised	6 562 000	7 134 000
Prepayments	4 159 929	2 714 100
Non-cash employee benefits	17 794 579	(28 220 553)
Retentions Forfeits	(26 301 279)	(21)
Interest charged on trade and other receivables	(42 373 326)	(35 718 053)
Service charges	(84 041 073)	(81 787 624)
Public sector donation	(780 000)	(148 236)
Changes in working capital:		
Inventories	(99 147 526)	(84 680 550)
Trade and other receivables	21 050 974	29 902 097
Prepayments	(4 477 825)	(4 159 930)
Trade and other payables	(4 114 186)	47 676 421
Employee benefit obligation	(14 053 644)	32 962 583
Unspent conditional grants	(272 877)	(3 454 630)
	521 720 426	467 412 908
41. Auditors' remuneration		
Fees	3 916 737	3 619 245
42. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment	420 382 766	93 187 324
Total capital commitments		
Already contracted for but not provided for	420 382 766	93 187 324
This expenditure will be financed from		
Government grants - conditional	411 169 697	78 513 112
Own funding	9 213 069	14 674 212
	420 382 766	93 187 324

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
42. Commitments (continued)		
Authorised operational expenditure		
Already contracted for but not provided for		
• Infrastructure	1 436 783	2 396 748
• Non-infrastructure	8 366 956	858 479
	9 803 739	3 255 227
Total operational commitments		
Already contracted for but not provided for	9 803 739	3 255 227
This expenditure will be financed from		
Government grants - conditional	1 436 783	2 396 748
Own funding	8 366 956	858 479
	9 803 739	3 255 227
Total commitments		
Total commitments		
Authorised capital expenditure	420 382 766	93 187 324
Authorised operational expenditure	9 803 739	3 255 227
	430 186 505	96 442 551

43. Contingent Liability

The Municipality has a contingent liability of R 26 095 772 due to it being sued by service providers. See below the claim for damages:

In Touch	3 516 400	3 516 400
Royal Haskoning	11 472 232	11 472 232
Hulisani Vincent Sithagu	2 800 000	3 234 000
Dirk Jacobus Floris Venter	5 000 000	635 350
Mgababa Travel Agency	1 057 140	1 057 140
Marce Project	2 250 000	-
Hall Longmore Holdings (Pty) Ltd	-	8 911 643
In Sithu Consulting Engineers	-	258 051
Mantella Trading 415cc and another	-	2 587 544
Physon Business Solution (Pty) Ltd	-	1 191 614
Storm Fencing	-	585 023
	26 095 772	33 448 997

Guarantee

Guarantee held by Eskom for the supply of electricity to Lebowakgomo sewage plant amounting to R294 600 on FNB account and interest as disclosed in the cash equivalents.

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:

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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43. Contingent Liability (continued)

Makopa Ethen Legodi

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.

Matome Chidi

Chidi launched an application in May 2020 against CDM, seeking a relief of a declaratory order in that the municipality failed to provide the applicant with enough clean water at Dipatene Village is unconstitutional and violate his constitutional rights. And further that the municipality be interdicted to provide potable water and sanitation to the village.

Lebowakgomo

The plaintiff brought an application to court requesting for an order against CDM to reconnect the water which the municipality disconnected due to non-payment.

Kalkfontein No.2 Pietersburg (Pty) Ltd

On the 5 May 2017, the Constitutional Court declared that the Mamahule Communal Property Association, the Mamahule Community, the Mamahule Traditional Authority and Occupiers of farm Kalkfontein 1001 LS are unlawful occupiers of that land. The municipality was cited in the court case though the area does not fall within the jurisdiction of the CDM service delivery area.

44. Unauthorised, Irregular and Fruitless and Wasteful Expenditure

Irregular expenditure	190 316	73 276
Fruitless and wasteful expenditure	709 755	1 402 579
Closing balance	900 071	1 475 855

45. Fruitless and wasteful expenditure

Opening balance as previously reported	1 402 579	1 373 511
Add: Fruitless and wasteful expenditure identified - current	4 074 817	29 068
Less: Amount to be recovered - prior period	(692 824)	-
Closing balance	4 784 572	1 402 579

Details of fruitless and wasteful expenditure

	Actions taken		
Refurbishment of infrastructure assets	To be investigated by the Financial Misconduct Board	4 047 817	-

Amount to be recovered

After the council committee investigations, council adopted through resolution OC 01/2022 - 2023/7.2.1, the council committee recommendations to recover an amount of R 692 824 from various parties.

46. Irregular expenditure

Opening balance as previously reported	73 276	1 388
Add: Irregular expenditure - current	192 957 239	71 888
Less: Amount written off - current	(541 264)	-
Less: Amount written off - prior period	(73 277)	-
Closing balance	192 415 974	73 276

Capricorn District Municipality

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Figures in Rand 2023 2022

46. Irregular expenditure (continued)

Incidents/cases identified/reported in the current year	Actions taken		
Non-compliance with Cost Containment Reg. 11 (2) - Employees allocated telephone limits in excess of the Policy requirements	Matter referred to the Disciplinary Committee	11 330	-
Non-compliance with Cost Containment Reg. 13(6) - Overtime paid in excess of the regulations	Matter referred to the Disciplinary Committee	176 526	-
Non-compliance with Cost Containment Reg. 12(2) - More than three officials are attending same meetings or conference	Matter referred to the Disciplinary Committee	3 280	-
	Council resolution SC 01/2023 - 2024/5.1 - Amount written-off	(820)	-
Non-compliance with Cost Containment Reg. 12(8) - Events held outside of the municipal facilities	Matter reported to Council	4 406	-
	Council resolution SC 01/2023 - 2024/5.1 - Amount written-off	(4 406)	-
Non-compliance with Cost Containment Reg. 8(2) - Overnight accommodation booked when the place of attendance is within the municipal radius	Matter reported to Council	532 663	-
	Council resolution SC 01/2023 - 2024/5.1 - Amount written-off	(532 663)	-
Payment to supplier without a contract in place	Council resolution OC 01/2022 - 2023/7.2.1 - Amount written-off	-	71 888
Non-compliance with Cost Containment Reg. 10(2) - Procurement of catering services for meetings less than 5 Hours	Matter reported to Council	3 375	-
	Council resolution SC 01/2023 - 2024/5.1 - Amount written-off	(3 375)	-
Non-compliance with Supply Chain Regulations MFMA (112)(h)(ii)	Matter referred to the Disciplinary Committee	192 225 658	-
		192 415 974	71 888

Amount written-off

After the council committee investigations, council adopted with resolution number OC 01/2022 - 2023/7.2.1 and SC 01/2023 - 2024/5.1 the council committee recommendation to write-off an amount of R 614 541 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
47. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	4 159 929	2 222 601
Current year subscription / fee	(4 159 929)	(2 222 601)
Amount paid - current year	3 955 698	4 159 929
	3 955 698	4 159 929
Current year:		
The amount of R3 955 698 was paid in advance as a result of discounts given for early payment.		
Prior year:		
The amount of R4 159 929 was paid in advance as a result of discounts given for early payment.		
Audit fees		
Opening balance	11 706	(57 672)
Current year subscription / fee	4 504 248	3 619 245
Amount paid - current year	(4 504 248)	(3 549 867)
Amount paid - previous years	(11 706)	-
	-	11 706
PAYE and UIF		
Current year subscription / fee	65 353 303	64 790 986
Amount paid - current year	(65 353 303)	(64 790 986)
	-	-
Pension and Medical Aid Deductions		
Current year subscription / fee	56 515 733	55 971 118
Amount paid - current year	(56 515 733)	(55 971 118)
	-	-
VAT		
VAT receivable	32 351 334	25 504 409

VAT output payables and VAT input receivables are shown in note 5. All VAT returns have been submitted by the due date throughout the year.

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
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47. Additional disclosure in terms of Municipal Finance Management Act (continued)

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2023:

30 June 2023	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor Mollo MI	1 358	-	1 358

30 June 2022	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor Mollo MI	381	-	381

Supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process. Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

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

Sole Provider

Africa Travel Indaba	32 095	30 328
Caseware	119 760	111 932
Consolidated African Technologies	92 765	-
ESRI South Africa	89 539	-
National Laboratory Association (NLA)	43 010	-
LRMG - Orglus Software	11 874	-
Microsoft Ireland Operations Limited	3 022 702	-
Phoenix ERP	7 345 716	-
Repair damages on E samplers	35 938	-
SABS Commercial (Ltd)	76 357	-
South African National Standards (SANS) codes of Practice	40 285	-
GRAP Training for finance officials	-	167 500
Educational Support Management Pax College	-	300 000
Lukas Hydraulic Motors	-	48 701
National Fire Protection Association Fire	-	73 069
Servicing of cascade systems	-	181 415
Training for SCM Bid Committees members	-	104 500
Training for fire fighters	-	27 576
Impractical to follow the normal SCM processes		
Capacity Building Program: Building Boys Better Camp	50 000	-
Pax College and Ratanang Special school	200 000	-
World Travel Market	69 147	65 628
	11 229 188	1 110 649

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

2023

2022

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

The following deviations were made on a rate basis:

Special works of art

⇒ Radio, television broadcast and print media

⇒ Educational support management processes

Microsoft Ireland Operations Limited

A three year license were bought for all Microsoft users in the municipality.

Phoenix ERP

A three year license were signed with PhoenixERP for the use of the financial system.

Investments as at the end of the financial year

The entity had the following investments as at the end of the financial year.

Summary of all investments

ABSA	104 092 083	40 705 302
FNB call	379 671	297 422
FNB fixed	39 504 863	-
Nedbank	255 755 864	257 797 795
Standard Bank	76 767 551	127 127 947
	476 500 032	425 928 466

48. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus of R 4 094 650 933 and that the municipality's total liabilities exceed its assets by R 4 094 650 933.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors.

49. Events after the reporting date

Management is not aware of any events arising after the balance sheet date that provide evidence of conditions that existed at the existed at the Statement of Financial Position date.

50. New standards and interpretations

50.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2023 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 25 (as revised): Employee Benefits	01 April 2023	Unlikely there will be a material impact

Notes to the Annual Financial Statements

50. New standards and interpretations (continued)

50.2 Standards and interpretations not yet effective or relevant

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2023 or later periods but are not relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2023	Unlikely there will be a material impact
• iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact
• GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Unlikely there will be a material impact

51. Related parties

Relationships	
Employee benefit obligations	Refer to note 16
Members of key management	Refer to note 24
Remuneration of councillors	Refer to note 25
Contributions to organised local government	Refer to note 47

52. Comparative figures

Certain comparative figures have been reclassified. Refer to note 53

53. Prior-year adjustments

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

Statement of financial position

2021

	Note	As previously reported	Correction of error	Re-classification	Restated
Opening retained earnings		(3 410 347 266)	71 917 418	-	(3 338 429 848)

Capricorn District Municipality

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53. Prior-year adjustments (continued)

2022

	Note	As previously reported	Correction of error	Re-classification	Restated
Receivable from exchange transactions	3	-	-	23 965 557	23 965 557
Receivable from non-exchange transactions	4	27 319 380	692 824	(23 965 557)	4 046 647
VAT receivable	5	24 439 148	1 065 261	-	25 504 409
Intangible assets	11	3 508 874	2 112	-	3 510 986
Payables from exchange transactions	15	(183 848 804)	(12 826 558)	-	(196 675 362)
Current Employee benefit obligation	16	(15 190 496)	(14 164 029)	-	(29 354 525)
Non current Employee benefit obligation	16	(67 551 957)	(59 608 992)	-	(127 160 949)
		(211 323 855)	(84 839 382)	-	(296 163 237)

Statement of financial performance

2022

	Note	As previously reported	Correction of error	Re-classification	Restated
Inventories consumed	2	84 290 888	-	(32 794 299)	51 496 589
Inventories losses	2	-	-	32 794 299	32 794 299
Employee Related Cost: Senior Management: Performance bonus	24	-	-	158 062	158 062
Employee Related Cost: Municipal staff: Performance bonus	24	7 134 000	-	(158 062)	6 975 938
Employee related costs	24	333 471 328	11 258 996	-	344 730 324
Depreciation	26	75 513 255	(2 114)	-	75 511 141
Contracted services	34	135 598 450	983 149	(15 161 103)	121 420 496
Actuarial loss	36	3 818 239	711 000	-	4 529 239
General expenditure	38	79 685 507	(29 068)	15 161 103	94 817 542
		719 511 667	12 921 963	-	732 433 630

Capricorn District Municipality

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53. Prior-year adjustments (continued)

Cash flow statement

2022

	Note	As previously reported	Correction of error	Re-classification	Restated
Cash flow from operating activities					
Cash receipts from customers		128 984 536	(1 223 213)	(100 879 377)	26 881 946
Suppliers		(379 513 963)	3 112 971	99 604 705	(276 796 287)
Employee costs		(345 635 698)	(1 889 758)	1 274 672	(346 250 784)
		(596 165 125)	-	-	(596 165 125)

Errors

The following prior period errors adjustments occurred:

Payables from exchange transactions

Comparative figures for 2022 has been restated. Invoices for legal services rendered relating to 2022, 2021 and 2020 was received and captured in subsequent financial years. This has affected the cashflow statement as well.

Receivable from non-exchange transactions

Fruitless and wasteful expenditure relating to Best Said Properties of R 663 755 and vehicle licences amounting to R29 068 was recognised as Receivable from non-exchange transactions.

VAT receivable

Invoices for legal services rendered relating to 2022, 2021 and 2020 was received and captured in subsequent financial years.

Employee benefit obligation - current

Performance bonus and 13th cheque's amounting to R 226 971 not paid out in previous years were reconciled. The actuarial valuation had a correction of R 13 937 058. This was due to the recognition of post retirement medical benefits for current employees. The net impact was R 14 164 029.

Employee benefit obligation - non-current

The actuarial valuation had a correction of R 59 608 992. This was due to the recognition of post retirement medical benefits for current employees. The net impact was R 14 164 029.

Depreciation correction

An correction of R 2 114 was done on intangible assets.

Disclosure of commitments

During 2022 commitments for approved and contracted category of property, plant and equipment were disclosed as R 69 653 088 and it should have been R 93 187 324.

Those arose from additional R 8 707 404 of WSIG commitments which were previously not disclosed in the 2022 financial year.

Capricorn District Municipality

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53. Prior-year adjustments (continued)

Reclassifications

Receivable from non-exchange transactions

Receivable from non-exchange transactions amounting to R 23 965 557 was reclassified as Receivable from exchange transactions. These are the refunds on water collections due from the local municipalities.

Inventories consumed and water losses

Water losses amounting to R 32 794 299 were accounted and reclassified from inventories consumed.

Performance bonus

Performance bonus under Employee Related Cost amounting to R 158 062 was reclassified to Senior Management: Performance bonus

Contracted services

Contracted services amounting to R 15 161 103 was reclassified as General expenses. The reason is due to misclassifications in 2022.

Cash receipts from customers

VAT receivable amounting to R 100 879 377 reclassified using the direct method in calculating the cash flows. This affected the movement in supplier payments.

Suppliers and Employee related costs

- ⇒ Supplier payments amounting to R 1 274 672 were reclassified as employee related costs as this amount was included in Payables from exchange transactions.
- ⇒ Performance bonuses from municipal staff of R 158 062 was reclassified as performance bonuses senior management.

Change in estimate

Employee benefit obligation

The employee health-care liability was changed to include current in service members from 2022. This lead to an increase of R 73 773 021 in the Employee benefit obligation for 2022.

54. Financial instruments disclosure

Categories of financial instruments

2023

Financial assets

	At amortised cost	At cost	Total
Trade and other receivables from exchange transactions	-	19 180 450	19 180 450
Other receivables from non-exchange transactions	4 029 765	-	4 029 765
Consumer debtors	43 599 241	-	43 599 241
Cash and cash equivalents	-	493 700 442	493 700 442
	47 629 006	512 880 892	560 509 898

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54. Financial instruments disclosure (continued)

Financial liabilities

	At amortised cost	At cost	Total
Finance lease obligation	-	874 146	874 146
Operating lease liability	-	258 400	258 400
Trade and other payables from exchange transactions	-	166 628 411	166 628 411
	-	167 760 957	167 760 957

2022

Financial assets

	At amortised cost	At cost	Total
Receivables from exchange transactions	-	23 965 557	23 965 557
Receivables from non-exchange transactions	4 046 647	-	4 046 647
Consumer debtors	55 938 850	-	55 938 850
Cash and cash equivalents	-	427 265 913	427 265 913
	59 985 497	451 231 470	511 216 967

Financial liabilities

	At amortised cost	At cost	Total
Finance lease liability	-	1 418 170	1 418 170
Operating lease liability	-	206 877	206 877
Trade and other payables from exchange transactions	-	196 675 362	196 675 362
Unspent conditional grants	-	272 877	272 877
	-	198 573 286	198 573 286

55. Risk management

Financial risk management

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

Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

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

Cash flow forecasts are prepared monthly.

Capricorn District Municipality

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55. Risk management (continued)

At 30 June 2023

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	874 146	-	-	-
Operating lease liability	258 400	-	-	-
Trade and other payables	166 628 411	-	-	-

At 30 June 2022

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1 418 170	874 146	-	-
Operating lease liability	206 877	-	-	-
Trade and other payables	196 675 362	-	-	-

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

Receivables from exchange transactions	19 180 450	23 965 557
Cash and cash equivalents	493 700 442	427 265 910
VAT receivable	32 351 334	25 504 409
Consumer debtors	43 599 241	55 938 850
Receivables from non-exchange transactions	4 029 765	4 046 647
Prepayments	4 477 826	4 159 929

Market risk

Interest rate risk

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

56. Accounting by principals and agents

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

Capricorn District Municipality

Annual Financial Statements for the year ended 30 June 2023

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56. Accounting by principals and agents (continued)

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

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. The following information is disclosed as per GRAP 109.

Entity as principal

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

There are no resources under the custodianship of the agents, nor have they been recognised as such. As at year-end the amount received on behalf of the municipality which is still in the custody of the local municipalities have been disclosed as receivables from non-exchange in the Statement of Financial Performance.

Fee paid

Lepelle Nkumpi Local Municipality	35 240 491	33 066 871
Blouberg Local Municipality	1 973 972	1 442 042
Molemole Local Municipality	709 857	742 790
	37 924 320	35 251 703

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

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

57. Budget differences

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 2022 to 30 June 2023. 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 a consequence of an Adjustment budget that was approved 25 February 2023 and virements within the approved budget parameters. Variances of 10% or more are explained in note 58 and 59.

58. Statement of Financial Performance

Income

Service charges	-	Increase in consumers billed.
Other income	-	Decrease in the selling of tender documents due to it being available on the municipal's website.
Interest on investments	-	An increase in interest rates given by banks.
Interest on consumers	-	An increase consumer debt.

Expenditure

Depreciation	-	Projects under under construction not completed and therefore not depreciated.
Impairment losses	-	Assets well maintained during the year.
Lease rentals on operating lease	-	Over budgeting.
Bad debts written-off	-	Fruitless and wasteful expenditure written-off by Council.
Finance costs	-	The finance lease term is at a end, therefore the reduction.
Contracted Services	-	Pre-paid smart meters in the process of implementation.

Capricorn District Municipality

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Notes to the Annual Financial Statements

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58. Statement of Financial Performance (continued)

General Expenses	-	Savings on Insurance Premiums, External Audit Fees, Water & Electricity, Uniform and Protective Clothing and Water commission paid.
Actuarial gains	-	Expense projections made in 2020 relating to leave, long service awards and medical was less than actual expenses.
Derecognition of assets	-	Assets no longer in use that were derecognised and that was in excess of the budget.

59. Statement of Financial Position

Assets

Inventories	-	Reductions of inventories consumed.
Receivables from exchange transactions	-	Local municipalities paid outstanding debt.
Consumer debtors	-	Increase in the impairment of consumer debtors.
Cash and cash equivalents	-	Savings realised during the year.
Intangible assets	-	Expenditure on the implementation of financial systems still to be incurred

Liabilities

Pavements from exchange transactions	-	Long out standing retention's written-off
Employee benefit obligation	-	Accrual for medical aid for in service employees.

60. Cash flow statement

Operating Activities

Sale of goods and services	-	Outstanding VAT refunds were paid.
Interest income	-	An increase in interest rates given by banks.
Suppliers	-	Savings on Insurance Premiums, External Audit Fees, Water & Electricity, Uniform and Protective Clothing, Water commission paid and Pre-paid smart meters in the process of implementation.
Finance costs	-	The finance lease term is at a end, therefore the reduction.

Investing Activities

Proceeds on the sale of PPE	-	Proceeds on the disposal of PPE not budgeted for.
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Financing Activities

Finance lease payments	-	Finance lease repayment not budgeted for.
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61. COVID 19 Expenditure

3 Ply cloth and surgical masks consumables	-	92 634
COVID 19 supplies and consumables	-	990 000
Fogging machines	-	28 940
Sanitiser consumables	-	102 760
	-	1 214 334