



**GREAT KEI**  
MUNICIPALITY

Great Kei Local Municipality  
Annual Financial Statements  
for the year ended June 30, 2022

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## General Information

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### Nature of business and principal activities

Great Kei Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. (Act no. 117 of 1998)

The municipality's operations are governed by:

-Municipal Finance Management Act no. 56 of 2003

-Municipal Structures Act no.117 of 1998

-Municipal Systems Act no. 32 of 2000 and various other acts and regulations.

### List of councillors

Mayor

Cllr. N.W Tekile

Speaker

Cllr. N. Mgema

Chief Whip

Cllr. Z. Nzuzo

Cllr. H. Phakamile

Cllr. M. Njanya

Cllr. M. Twani

Cllr. Z. Patuluko

Cllr. W. Sinqana

Cllr. Z. Tshali

Cllr. P. Kyriacos

Cllr. S.M. Jacobs

Cllr. M. Matshoba

Cllr. C. Norman (Resigned effective 31st January 2022)

Cllr. F W. Webber

### Grading of local authority

Category 2

### Accounting Officer

Mr L.N. Mambila

### Chief Finance Officer (CFO)

Mr A. Lwana

### Registered office

17 Main Street

Komga

4950

### Postal address

Private Bag X2

Komga

4950

### Bankers

Standard Bank Limited

### Auditors

Auditor General of South Africa

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Index

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

	<b>Page</b>
Accounting Officer's Responsibilities and Approval	3
Statement of Financial Position	4
Statement of Financial Performance	5
Statement of Changes in Net Assets	6
Cash Flow Statement	7
Statement of Comparison of Budget and Actual Amounts	8 - 11
Accounting Policies	12 - 40
Notes to the Annual Financial Statements	41 - 78

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
FMG	Finance Management Grant
EPWP	Expanded Public Works Programme
EC-COGTA	Eastern Cape Department of Cooperative Governance and Traditional Affairs
OTP	Office of the Premier

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (No. 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.

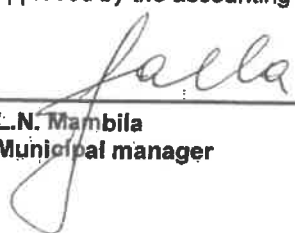
The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting 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 June 30, 2023 and, in the light of this review and the current financial position, he is satisfied that the municipality has or will have access to adequate resources to continue in operational existence for the foreseeable future.

The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

The annual financial statements set out from page 4 to page 78, which have been prepared on the going concern basis, were approved by the accounting officer on June 30, 2022 and were signed by:

  
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L.N. Mambila  
Municipal manager

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Financial Position as at June 30, 2022

Figures in Rand	Notes	2022	2021 Restated
<b>Assets</b>			
<b>Current Assets</b>			
Receivables from exchange transactions	3	3,606,442	10,496,209
Statutory receivables	4	4,504,827	4,403,946
VAT receivable	5	2,790,895	327,919
Cash and cash equivalents	6	16,609,805	5,443,987
		<b>27,511,969</b>	<b>20,672,061</b>
<b>Non-Current Assets</b>			
Investment property	7	77,800,547	77,800,547
Property, plant and equipment	8	251,343,265	243,797,358
Heritage assets	9	36,000	36,000
		<b>329,179,812</b>	<b>321,633,905</b>
<b>Total Assets</b>		<b>356,691,781</b>	<b>342,305,966</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Payables from exchange transactions	10	41,654,630	55,830,831
Employee benefit obligation	11	6,156,537	5,993,310
Unspent conditional grants and receipts	12	364,773	492,910
Provisions	13	1,820,802	679,202
		<b>49,996,742</b>	<b>62,996,253</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	11	9,485,388	11,125,257
Provisions	13	19,526,437	17,727,362
		<b>29,011,825</b>	<b>28,852,619</b>
<b>Total Liabilities</b>		<b>79,008,567</b>	<b>91,848,872</b>
<b>Net Assets</b>		<b>277,683,214</b>	<b>250,457,094</b>
Accumulated surplus		277,683,214	250,457,094
<b>Total Net Assets</b>		<b>277,683,214</b>	<b>250,457,094</b>

\* See Note 34

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Financial Performance

Figures in Rand	Notes	2022	2021 Restated
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	14	17,761,800	20,242,015
Rental of facilities and equipment	15	47,244	43,549
Agency services		177,555	155,080
Licences and permits		459,220	155,575
Other income	16	1,018,102	782,847
Interest income	17	4,047,101	6,322,920
<b>Total revenue from exchange transactions</b>		<b>23,511,022</b>	<b>27,701,986</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	18	33,682,245	25,215,426
Interest received	17	4,377,795	5,161,296
<b>Transfer revenue</b>			
Government grants & subsidies	19	77,072,799	81,348,463
Donations received	20	-	416,000
Fines, Penalties and Forfeits		19,500	43,300
Debt forgiveness	46	7,902,566	-
<b>Total revenue from non-exchange transactions</b>		<b>123,054,905</b>	<b>112,184,485</b>
<b>Total revenue</b>		<b>146,565,927</b>	<b>139,886,471</b>
<b>Expenditure</b>			
Employee related costs	21	(44,367,294)	(46,416,946)
Remuneration of councillors	22	(4,725,247)	(4,588,006)
Depreciation, impairment loss and amortisation	23	(13,077,698)	(11,653,123)
Finance costs	24	(2,468,162)	(2,730,772)
Lease rentals on operating lease		(261,443)	(220,002)
Debt Impairment	25	(19,553,381)	(29,107,275)
Bulk purchases	26	(12,218,921)	(10,765,184)
Contracted services	44	(7,847,772)	(6,087,179)
Transfers and Subsidies	45	(147,121)	-
General Expenses	27	(14,269,293)	(15,853,576)
<b>Total expenditure</b>		<b>(118,936,332)</b>	<b>(127,422,063)</b>
<b>Operating surplus</b>		<b>27,629,595</b>	<b>12,464,408</b>
Actuarial gain / (loss) on employee benefit obligations	11	2,694,875	(1,610,698)
Actuarial (loss) on Landfill site provision	13	(1,161,473)	(1,215,060)
Loss on disposal of non-current assets	8	(1,936,880)	(1,238,966)
		<b>(403,478)</b>	<b>(4,064,724)</b>
<b>Surplus for the year</b>		<b>27,226,117</b>	<b>8,399,684</b>

\* See Note 34

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at July 1, 2020</b>	<b>242,057,410</b>	<b>242,057,410</b>
Changes in net assets		
Surplus for the year	8,399,684	8,399,684
Total changes	8,399,684	8,399,684
<b>Restated* Balance at July 1, 2021</b>	<b>250,457,097</b>	<b>250,457,097</b>
Changes in net assets		
Surplus for the year	27,226,117	27,226,117
Total changes	27,226,117	27,226,117
<b>Balance at June 30, 2022</b>	<b>277,683,214</b>	<b>277,683,214</b>

\* See Note 34

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Cash Flow Statement

Figures in Rand	Notes	2022	2021 Restated
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Other receipts		1,721,621	1,137,051
Rates and services		38,679,556	13,714,560
Grants		74,330,759	66,239,964
Interest income		8,424,896	11,484,216
		<u>123,156,832</u>	<u>92,575,791</u>
<b>Payments</b>			
Employee costs		(47,874,309)	(48,189,911)
Suppliers		(39,088,056)	(27,954,189)
Finance costs		(2,468,162)	(2,730,772)
		<u>(89,430,527)</u>	<u>(78,874,872)</u>
<b>Net cash flows from operating activities</b>	30	<b><u>33,726,305</u></b>	<b><u>13,700,919</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	8	(22,560,487)	(14,401,739)
Proceeds from sale of other assets	7	-	34,994
<b>Net cash outflows from investing activities</b>		<b><u>(22,560,487)</u></b>	<b><u>(14,366,745)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>11,165,818</b>	<b>(665,826)</b>
Cash and cash equivalents at the beginning of the year		5,443,987	6,109,813
<b>Cash and cash equivalents at the end of the year</b>	6	<b><u>16,609,805</u></b>	<b><u>5,443,987</u></b>

\* See Note 34



# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Electricity	10,345,475	-	10,345,475	9,423,502	(921,973)	
Waste management	10,333,182	-	10,333,182	8,338,298	(1,994,884)	42.1
Rental of facilities and equipment	1,700,000	-	1,700,000	47,244	(1,652,756)	42.2
Agency services	250,000	-	250,000	177,555	(72,445)	42.3
Licences and permits	1,230,000	-	1,230,000	459,220	(770,780)	42.4
Other income	3,510,003	1,649,999	5,160,002	1,018,102	(4,141,900)	42.5
Interest received	5,820,903	-	5,820,903	4,047,101	(1,773,802)	
<b>Total revenue from exchange transactions</b>	<b>33,189,563</b>	<b>1,649,999</b>	<b>34,839,562</b>	<b>23,511,022</b>	<b>(11,328,540)</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	26,999,997	3,821,360	30,821,357	33,682,245	2,860,888	
Interest, Dividends and Rent on Land	-	-	-	4,377,795	4,377,795	42.6
<b>Transfer revenue</b>						
Government grants & subsidies	51,155,500	50,001	51,205,501	49,708,819	(1,496,682)	42.7
Fines, Penalties and Forfeits	20,000	-	20,000	19,500	(500)	
Debt forgiveness	-	-	-	7,902,566	7,902,566	42.8
<b>Total revenue from non-exchange transactions</b>	<b>78,175,497</b>	<b>3,871,361</b>	<b>82,046,858</b>	<b>95,690,925</b>	<b>13,644,067</b>	
<b>Total revenue</b>	<b>111,365,060</b>	<b>5,521,360</b>	<b>116,886,420</b>	<b>119,201,947</b>	<b>2,315,527</b>	
<b>Expenditure</b>						
Employee related costs	(40,336,551)	(2,503,057)	(42,839,608)	(44,367,294)	(1,527,686)	42.9
Remuneration of councillors	(5,050,687)	-	(5,050,687)	(4,725,247)	325,440	42.10
Depreciation and amortisation	(15,000,000)	(15,000,000)	(30,000,000)	(13,077,698)	16,922,302	
Inventory consumed	(2,609,100)	1,577,442	(1,031,658)	-	1,031,658	
Finance costs	(500,000)	(904,274)	(1,404,274)	(2,468,162)	(1,063,888)	42.11
Lease rentals on operating lease	-	-	-	(261,443)	(261,443)	42.12
Debt Impairment	(13,000,000)	(45,000,000)	(58,000,000)	(19,553,381)	38,446,619	
Bulk purchases	(8,500,000)	(3,909,529)	(12,409,529)	(12,218,921)	190,608	
Contracted Services	(11,219,961)	1,315,031	(9,904,930)	(7,847,772)	2,057,158	42.13
Transfers and Subsidies	-	-	-	(147,121)	(147,121)	42.14
General expenses	(13,926,939)	(6,445,953)	(20,372,892)	(14,269,293)	6,103,599	42.15
<b>Total expenditure</b>	<b>(110,143,238)</b>	<b>(70,870,340)</b>	<b>(181,013,578)</b>	<b>(118,936,332)</b>	<b>62,077,246</b>	
<b>Operating surplus</b>	<b>1,221,822</b>	<b>(65,348,980)</b>	<b>(64,127,158)</b>	<b>265,615</b>	<b>64,392,773</b>	
Transfers and subsidies - capital (monetary allocations) (National / Provincial and District)	11,054,500	15,768,872	26,823,372	27,363,980	540,608	
Actuarial gains/losses	-	-	-	2,694,875	2,694,875	
Revenue forgone	-	-	-	(1,161,473)	(1,161,473)	
Loss on non-current assets	-	(2,000,000)	(2,000,000)	(1,936,880)	63,120	

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
	11,054,500	13,768,872	24,823,372	26,960,502	2,137,130	
Surplus before taxation	12,276,322	(51,580,108)	(39,303,786)	27,226,117	66,529,903	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	12,276,322	(51,580,108)	(39,303,786)	27,226,117	66,529,903	

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Receivables from exchange transactions	-	-	-	3,606,442	3,606,442	42.16
Statutory receivables	-	-	-	4,504,827	4,504,827	42.17
VAT receivable	-	-	-	2,790,895	2,790,895	42.18
Consumer debtors	46,000,001	3,821,359	49,821,360	-	(49,821,360)	42.19
Other financial assets	139,999	6	140,005	-	(140,005)	
Cash and cash equivalents	13,378,291	48,147,667	61,525,958	16,609,805	(44,916,153)	42.20
	<b>59,518,291</b>	<b>51,969,032</b>	<b>111,487,323</b>	<b>27,511,969</b>	<b>(83,975,354)</b>	
<b>Non-Current Assets</b>						
Investment property	82,043,546	(4,243,002)	77,800,544	77,800,547	3	
Property, plant and equipment	301,284,738	17,599,127	318,883,865	251,343,265	(67,540,600)	42.21
Intangible assets	534	-	534	-	(534)	
Heritage assets	35,999	-	35,999	36,000	1	
	<b>383,364,817</b>	<b>13,356,125</b>	<b>396,720,942</b>	<b>329,179,812</b>	<b>(67,541,130)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	25,000,000	289,675	25,289,675	41,654,630	16,364,955	42.22
Consumer deposits	49,999	919,969	969,968	-	(969,968)	
Employee benefit obligation	-	-	-	6,156,537	6,156,537	42.23
Unspent conditional grants and receipts	-	-	-	364,773	364,773	42.24
Provisions	1,170,876	1,057,743	2,228,619	1,820,802	(407,817)	42.25
Consumer deposits	-	-	-	-	-	
	<b>26,220,875</b>	<b>2,267,387</b>	<b>28,488,262</b>	<b>49,996,742</b>	<b>21,508,480</b>	
<b>Non-Current Liabilities</b>						
Employee benefit obligation	(6,000,000)	19,693,295	13,693,295	9,485,388	(4,207,907)	
Provisions	(17,000,000)	34,000,000	17,000,000	19,526,437	2,526,437	
	<b>(23,000,000)</b>	<b>53,693,295</b>	<b>30,693,295</b>	<b>29,011,825</b>	<b>(1,681,470)</b>	
<b>Total Liabilities</b>	<b>3,220,875</b>	<b>55,960,682</b>	<b>59,181,557</b>	<b>79,008,567</b>	<b>19,827,010</b>	
<b>Net Assets</b>	<b>439,662,233</b>	<b>9,364,475</b>	<b>449,026,708</b>	<b>277,683,214</b>	<b>(171,343,494)</b>	
<b>Net Assets</b>						
<b>Accumulated surplus</b>						
<b>Reserves</b>						
Accumulated surplus	439,662,233	9,364,475	449,026,708	277,683,214	(171,343,494)	

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Property rates	18,899,998	2,292,816	<b>21,192,814</b>	38,679,556	<b>17,486,742</b>	
Other receipts	21,294,262	249,999	<b>21,544,261</b>	1,721,621	<b>(19,822,640)</b>	
Grants	61,760,001	15,818,872	<b>77,578,873</b>	74,330,759	<b>(3,248,114)</b>	
Interest income	5,000,000	-	<b>5,000,000</b>	8,424,896	<b>3,424,896</b>	
	<b>106,954,261</b>	<b>18,361,687</b>	<b>125,315,948</b>	<b>123,156,832</b>	<b>(2,159,116)</b>	
<b>Payments</b>						
Suppliers	(32,641,097)	(12,992,479)	<b>(45,633,576)</b>	(39,088,056)	<b>6,545,520</b>	
Employees	(45,387,238)	(2,503,057)	<b>(47,890,295)</b>	(47,874,309)	<b>15,986</b>	
Finance costs	(500,000)	-	<b>(500,000)</b>	(2,468,162)	<b>(1,968,162)</b>	
	<b>(78,528,335)</b>	<b>(15,495,536)</b>	<b>(94,023,871)</b>	<b>(89,430,527)</b>	<b>4,593,344</b>	
<b>Net cash flows from operating activities</b>	<b>28,425,926</b>	<b>2,866,151</b>	<b>31,292,077</b>	<b>33,726,305</b>	<b>2,434,228</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(10,663,908)	(19,307,458)	<b>(29,971,366)</b>	(22,560,487)	<b>7,410,879</b>	
Proceeds from sale of property, plant and equipment	-	1,400,000	<b>1,400,000</b>	-	<b>(1,400,000)</b>	
<b>Net cash flows from investing activities</b>	<b>(10,663,908)</b>	<b>(17,907,458)</b>	<b>(28,571,366)</b>	<b>(22,560,487)</b>	<b>6,010,879</b>	
<b>Cash flows from financing activities</b>						
Increase in consumer deposits	(27)	563,155	<b>563,128</b>	-	<b>(563,128)</b>	
<b>Net cash flows from financing activities</b>	<b>-</b>	<b>-</b>	<b>563,128</b>	<b>-</b>	<b>-</b>	
Net increase/(decrease) in cash and cash equivalents	17,762,018	(15,041,307)	<b>3,283,839</b>	11,165,818	<b>8,445,107</b>	
Cash and cash equivalents at the beginning of the year	6,999,998	47,693,468	<b>54,693,466</b>	5,443,987	<b>(49,249,479)</b>	
<b>Cash and cash equivalents at the end of the year</b>	<b>24,762,016</b>	<b>32,652,161</b>	<b>57,977,305</b>	<b>16,609,805</b>	<b>(40,804,372)</b>	

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

Figures in Rand	Note(s)	2022	2021
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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (No. 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.

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

These accounting policies are consistent with the previous period.

#### 1.1 Presentation currency

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

#### 1.2 Offsetting

Financial assets and financial liabilities shall be offset and the net amount presented in the statement of financial position when the municipality:

- has a currently enforceable legal right to set off the recognised amounts and
- intends either to settle on a net basis, or to realise the net asset and settle the liability simultaneously.

#### 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 Significant judgements and sources of estimation uncertainty

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

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

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

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

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio.

#### Fair value estimation

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

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

#### Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the service potential of tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors, together with economic factors.

Assumptions regarding departmental/governmental debt shall be treated as fully recoverable due to inter-governmental relations.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 13 - Provisions.

#### 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 government 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 11.

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows and for post-retirement benefits, a net discount is used. The net discount rate is made up of the health care cost inflation, consumer price inflation and the discount rate based on the Bond Exchange Zero Coupon Yield Curve.

#### Allowance for doubtful debts

The impairment of consumer debtors and other trade receivables exists predominantly due to the possibility that these debts will not be recovered. Receivables were assessed individually at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

In determining this allowance, estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile. The impairment is calculated after grouping all the financial assets of similar nature and risk ratings and by calculating historic payment ratios for the groupings and by assuming that the future payment ratios would be similar to the historic payment ratios.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

#### Recognition and Derecognition of Land

In some instances the municipality is not the legal owner or the custodian of land appointed in terms of legislation, but assessed that it controls such land. Key judgements made and assumptions applied to conclude that it controls such land are as per iGRAP 18.

In some instances the municipality is the legal owner, or the custodian of land appointed in terms of legislation, but concludes that it does not control such land. Key judgements made and assumptions applied to conclude that it does not control such land, are as per iGRAP 18.

#### Impairment of statutory receivables

If there is an indication that a statutory receivable may be impaired, the municipality measures an impairment loss. The impairment loss is measured 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 receivables, are reduced, either directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

In estimating the future cash flows, the municipality considers both the amount and timing of the cash flows that it will receive in future. At the end of each reporting date the the municiplaity assesses the recoverability of a debtor by assessing the collection of receipts from an individual debtor during the financial year under review.

An impairment loss recognised in prior periods for a statutory receivable are 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.

#### Accounting for adjustments to revenue

Determining whether an adjustment to revenue charged in terms of legislation or similar means is a correction of an error or a change in an accounting estimate requires the application of judgement by management. When adjustments to revenue already recognised arise from new information that becomes known to the municipality, the following considerations are applied to determine whether the adjustment to revenue already recognised is a correction of an error or a change in an accounting estimate:

- (a) If information becomes known to the municipality, and the municipality could reasonably have been expected to know of the information and/or the information used was incorrect, the adjustment to revenue is likely to be a correction of an error.
- (b) If information becomes known to the municipality, but the municipality could not reasonably have been expected to know of this information when the revenue was charged, the adjustment to revenue is likely to be a change in an accounting estimate.

#### Accounting for adjustments to revenue that correct an error or prior period error

Following the outcome of the determination processes noted above, and assessing whether this is new information that becomes known to the municipality, the municipality accounts for an adjustment to revenue already recognised, including interest and penalties, as the correction of an error or prior period error where the entity:

- (a) has not followed a proper due process to promulgate the tariff, basis, percentage or formula to charge the revenue; and/or
- (b) incorrectly applied the tariff, basis, percentage or formula in charging revenue.

Errors discovered within the reporting period which relates to that period are corrected before the annual financial statements are authorised for issue. The principles in GRAP 3 are applied to account for the adjustment to revenue already recognised as a result of the correction of a prior period error.

#### Accounting for adjustments to revenue as a change in an accounting estimate

Following the outcome of the determination processes noted above, and assessing whether this is new information that becomes known to the municipality, the municipality accounts for any adjustment to revenue already recognised, including interest and penalties, as a change in an accounting estimate if changes occur in the circumstances that led to the recognition of the revenue.

The principles in GRAP 3 are applied to account for a change in an accounting estimate.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.5 Investment property

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

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

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

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

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

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

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

#### Cost model

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

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

Item	Useful life
Property - land	indefinite
Property - buildings	5 - 50 years

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

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

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

### 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.



# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

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

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

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

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

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

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

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

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

Property, plant and equipment 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:

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Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite
Infrastructure		
- Tarred roads and paving	Straight-line	20 - 80 years
- Access roads	Straight-line	5 - 20 years
- Electricity	Straight-line	7 - 50 years
Other property, plant and equipment		
- Buildings and related items	Straight-line	5 - 50 years
- Recreational facilities and related items	Straight-line	5 - 50 years
- Halls and related items	Straight-line	5 - 50 years
- Parks and gardens and related items	Straight-line	5 - 30 years
- Plant, machinery and other equipment	Straight-line	2 - 25 years
- Furniture, fittings and office equipment	Straight-line	2 - 20 years
- Motor vehicles	Straight-line	5 - 20 years
- Computer equipment	Straight-line	2 - 10 years
Landfill sites	Straight-line	5 - 20 years

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

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

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

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

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

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

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

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

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

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

### 1.7 Heritage assets

Assets are resources controlled by a municipality as a result of past events and from which future economic benefits or service potential are expected to flow to the municipality.

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

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

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

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

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

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

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

An inalienable item is an asset that a municipality is required by law or otherwise to retain indefinitely and cannot be disposed of without consent.

Recoverable amount is the higher of a cash-generating asset's net selling price and its value in use.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.7 Heritage assets (continued)

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

Value in use of a cash-generating asset is the present value of the future cash flows expected to be derived from an asset or cash-generating unit.

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 8).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 8).

#### Recognition

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

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

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

After recognition as an asset, a class of heritage assets, whose fair value can be measured reliably, is carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent impairment losses.

If a heritage asset's carrying amount is increased as a result of a revaluation, the increase is credited directly to a revaluation surplus. However, the increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same heritage asset previously recognised in surplus or deficit.

If a heritage asset's carrying amount is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that heritage asset.

#### 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.

#### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a 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.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.8 Financial instruments

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

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

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

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

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 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.

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

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

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

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

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

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

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

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.8 Financial instruments (continued)

#### Classification

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

<b>Class</b>	<b>Category</b>
Receivables from exchange transactions	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at fair value

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

<b>Class</b>	<b>Category</b>
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Employee benefit obligations	Financial liability measured at amortised cost
Provision for rehabilitation of landfill sites	Financial liability measured at amortised cost
Unspent conditional grants	Financial liability measured at cost

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

1. Accumulated surplus.

#### Initial recognition

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

#### Initial measurement of financial assets and financial liabilities

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value.

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

#### Subsequent measurement of financial assets and financial liabilities

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:

- Financial instruments at fair value.
- Financial instruments at amortised cost.
- Financial instruments at cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

#### Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, a municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

#### Reclassification

The entity does not reclassify a financial instrument while it is issued or held unless it is:

- a combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

#### Gains and losses

A gain or loss arising from a change in the fair value of a financial asset or financial liability measured at fair value is recognised in surplus or deficit.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.8 Financial instruments (continued)

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

#### Impairment and uncollectibility of financial assets

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

#### Financial assets measured at amortised cost:

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

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

#### Financial assets measured at cost:

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

### Derecognition

#### Financial assets

The entity derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, 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 other 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. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

#### Financial liabilities

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

### Presentation

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.



# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.8 Financial instruments (continued)

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.9 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.

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.

#### Accrued interest

Where the municipality levies interest on the outstanding balance of statutory receivables, it adjusts the transaction amount after initial recognition to reflect any accrued interest. Accrued interest is calculated using the nominal interest rate.

Interest on statutory receivables is recognised as revenue in accordance with the policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers), whichever is applicable.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.9 Statutory receivables (continued)

#### Other charges

Where the municipality is required or entitled in terms of legislation, supporting regulations, by-laws or similar means to levy additional charges on overdue or unpaid amounts, and such charges are levied, the entity applies the principles as stated in "Accrued interest" above, as well as the relevant policy on Revenue from exchange transactions or the policy on Revenue from non-exchange transactions (Taxes and transfers).

#### 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.

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, the 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 receivables 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:
  - derecognises the receivable; and
  - recognises 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.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.10 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

#### Designation

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

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

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

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

#### Identification

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

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

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

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

#### Value in use

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

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

- base cash flow projections on reasonable and supportable assumptions that represent management's best estimate of the range of economic conditions that will exist over the remaining useful life of the asset. Greater weight is given to external evidence;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

- projections of cash inflows from the continuing use of the asset;
- projections of cash outflows that are necessarily incurred to generate the cash inflows from continuing use of the asset (including cash outflows to prepare the asset for use) and can be directly attributed, or allocated on a reasonable and consistent basis, to the asset; and
- net cash flows, if any, to be received (or paid) for the disposal of the asset at the end of its useful life.

Estimates of future cash flows exclude:

- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

The estimate of net cash flows to be received (or paid) for the disposal of an asset at the end of its useful life is the amount that the municipality expects to obtain from the disposal of the asset in an arm's length transaction between knowledgeable, willing parties, after deducting the estimated costs of disposal.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

#### Cash-generating units

If there is any indication that an asset may be impaired, the recoverable amount is estimated for the individual asset. If it is not possible to estimate the recoverable amount of the individual asset, the municipality determines the recoverable amount of the cash-generating unit to which the asset belongs (the asset's cash-generating unit).

If an active market exists for the output produced by an asset or group of assets, that asset or group of assets is identified as a cash-generating unit, even if some or all of the output is used internally. If the cash inflows generated by any asset or cash-generating unit are affected by internal transfer pricing, the municipality use management's best estimate of future price(s) that could be achieved in arm's length transactions in estimating:

- the future cash inflows used to determine the asset's or cash-generating unit's value in use; and
- the future cash outflows used to determine the value in use of any other assets or cash-generating units that are affected by the internal transfer pricing.

Cash-generating units are identified consistently from period to period for the same asset or types of assets, unless a change is justified.

The carrying amount of a cash-generating unit is determined on a basis consistent with the way the recoverable amount of the cash-generating unit is determined.

An impairment loss is recognised for a cash-generating unit if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment is allocated to reduce the carrying amount of the cash-generating assets of the unit on a pro rata basis, based on the carrying amount of each asset in the unit. These reductions in carrying amounts are treated as impairment losses on individual assets.

In allocating an impairment loss, the entity does not reduce the carrying amount of an asset below the highest of:

- its fair value less costs to sell (if determinable);
- its value in use (if determinable); and
- zero.

The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other cash-generating assets of the unit.

Where a non-cash-generating asset contributes to a cash-generating unit, a proportion of the carrying amount of that non-cash-generating asset is allocated to the carrying amount of the cash-generating unit prior to estimation of the recoverable amount of the cash-generating unit.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

#### Reversal of impairment loss

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

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

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

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

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

A reversal of an impairment loss for a cash-generating unit is allocated to the cash-generating assets of the unit pro rata with the carrying amounts of those assets. These increases in carrying amounts are treated as reversals of impairment losses for individual assets. No part of the amount of such a reversal is allocated to a non-cash-generating asset contributing service potential to a cash-generating unit.

In allocating a reversal of an impairment loss for a cash-generating unit, the carrying amount of an asset is not increased above the lower of:

- its recoverable amount (if determinable); and
- the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset in prior periods.

The amount of the reversal of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit.

#### Redesignation

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

### 1.11 Employee benefits

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

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

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

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

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

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

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

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.11 Employee benefits (continued)

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

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

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.11 Employee benefits (continued)

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

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

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

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

The entity account not only for its legal obligation under the formal terms of a defined benefit plan, but also for any constructive obligation that arises from the entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

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

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

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



# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.11 Employee benefits (continued)

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

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement rights;
- actuarial gains and losses;
- past service cost;
- the effect of any curtailments or settlements; and
- the effect of applying the limit on a defined benefit asset (negative defined benefit liability).

The entity uses the Projected Unit Credit Method to determine the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost. The Projected Unit Credit Method (sometimes known as the accrued benefit method pro-rated on service or as the benefit/years of service method) sees each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

In determining the present value of its defined benefit obligations and the related current service cost and, where applicable, past service cost, an entity shall attribute benefit to periods of service under the plan's benefit formula. However, if an employee's service in later years will lead to a materially higher level of benefit than in earlier years, an entity shall attribute benefit on a straight-line basis from:

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until
- the date when further service by the employee will lead to no material amount of further benefits under the plan, other than from further salary increases.

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

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

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

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

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

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

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.11 Employee benefits (continued)

#### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

### 1.12 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

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

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

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

Provisions are not recognised for future operating surplus.

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

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.12 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 33.

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

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

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

### 1.13 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.13 Commitments (continued)

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

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

### 1.14 Revenue from exchange transactions

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

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

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

#### Measurement

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

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

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.14 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

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

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

Interest is recognised 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.

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

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

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

### 1.15 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

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

#### Recognition

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

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

#### Measurement

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

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

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

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.

#### Taxes

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for value added tax is the undertaking of taxable activity during the taxation period by the taxpayer.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

#### 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.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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

#### Fines

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

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

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

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

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

### 1.16 Investment income

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

### 1.17 Borrowing costs

Borrowing costs are interest and other expenses incurred by an entity in connection with the borrowing of funds.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.18 Comparative figures

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

### 1.19 Unauthorised expenditure

Unauthorised expenditure is defined in section 1 of the MFMA as expenditure incurred by a municipality otherwise than in accordance with section 15 or 11(3) and includes:

- overspending of the total amount appropriated in the municipality's approved budget;
- overspending of the total amount appropriated for a vote in the approved budget;
- expenditure from a vote unrelated to the department or functional area covered by the vote
- expenditure of money appropriated for specific purpose, otherwise than for that specific purpose;
- spending of an allocation referred to in bullet points 2, 3 and 4 of the definition of allocation otherwise than in accordance with any conditions of allocations; or
- a grant by a municipality otherwise than in accordance with this Act.

### 1.20 Fruitless and wasteful expenditure

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

All expenditure relating to fruitless and wasteful expenditure must be disclosed in the note to the annual financial statements.

### 1.21 Irregular expenditure

Irregular expenditure is defined in section 1 of the MFMA as follows:

(a) expenditure incurred by the municipality in contravention of, or not in accordance with, a requirement of this Act, and has not been condoned in terms of section 170;

(b) expenditure incurred by the municipality in contravention of, or not in accordance with a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act; or

(c) expenditure incurred by the municipality in contravention of, or not in accordance with a requirement of the Public-Office-Bearers Act, 1998 (Act No.20 of 1998); or

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.21 Irregular expenditure (continued)

(d) expenditure incurred by the municipality in contravention of , or not in accordance with a requirement of supply chain management policy of the municipality, or any municipality's by-laws giving effect to such a policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure". Irregular expenditure is recognised when a payment is made.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

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

### 1.22 Segment information

A segment is an activity of an entity:

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

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

### 1.23 Transfer payments

The municipality transfers goods to organisations from time to time, through the Local Economic Development initiative. In making these transfers, the municipality does not:

- received any goods or services directly in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; or
- expect a financial return, as would be expected from an investment.

These transfers are recognised in the statement of financial performance as expenses in the period during which the events giving rise to the transfer occurred.

### 1.24 Budget information

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

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

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

The approved budget covers the fiscal period from 7/1/2021 to 6/30/2022.

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

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



# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Accounting Policies

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### 1.25 Related parties

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

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

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

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

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

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

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

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

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

### 1.26 Events after reporting date

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

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

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

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

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 2. New standards and interpretations

#### 2.1 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 July 1, 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	Undetermined dates	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	Undetermined dates	Unlikely there will be a material impact

### 3. Receivables from exchange transactions

Trade debtors	12,781,798	46,799,325
Debt impairment	(10,617,876)	(40,195,636)
Sundry debtors	142,520	142,520
Sundry debtors - Land disposal	1,300,000	3,750,000
	<b>3,606,442</b>	<b>10,496,209</b>
Current assets	3,606,442	10,496,209
	<b>3,606,442</b>	<b>10,496,209</b>

#### 30 June 2022

Consumer debtors by debtor type	0 - 30 Days	90 Days	120 Days +	Total
Government	71,491	58,548	671,424	801,463
Residents	941,450	728,158	9,368,039	11,037,647
Industries	401,404	65,031	476,253	942,688
	<b>1,414,345</b>	<b>851,737</b>	<b>10,515,716</b>	<b>12,781,798</b>

Consumer debtors by revenue type	0 - 30 Days	90 Days	120 Days +	Total
Electricity	691,739	286,736	685,110	1,663,585
Refuse removal	722,056	565,001	9,831,156	11,118,213
	<b>1,413,795</b>	<b>851,737</b>	<b>10,516,266</b>	<b>12,781,798</b>

#### 30 June 2021

Consumer debtors by revenue type	0 - 30 Days	90 Days	120 Days +	Total
Government	154,703	70,809	767,126	992,638
Residents	2,338,850	1,873,866	40,573,910	44,786,626
Industries	267,969	181,428	570,664	1,020,061
	<b>2,761,522</b>	<b>2,126,103</b>	<b>41,911,700</b>	<b>46,799,325</b>

Consumer debtors by revenue type	0 - 30 Days	90 Days	120 Days +	Total
Electricity	768,672	329,798	3,270,487	4,368,957
Refuse removal	1,992,850	1,796,305	38,641,213	42,430,368
	<b>2,761,522</b>	<b>2,126,103</b>	<b>41,911,700</b>	<b>46,799,325</b>

There were no trade and other receivables pledged as security.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

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

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

Opening balance	40,195,634	41,438,040
Movement for the year	10,617,876	(1,242,406)
Unused amounts reversed	(40,195,634)	-
	<b>10,617,876</b>	<b>40,195,634</b>

#### Offsetting

The Council has approved an item relating to a debt set-off between debt owed by Great Kei Municipality (water services) against the debt owed by the Amathole District Municipality (rates and taxes). A reconciliation was prepared between Great Kei Local Municipality and Amathole District Municipality and the balance below was set off:

Amathole District Municipality	Gross amounts before offsetting	Gross amounts set off	Total
Electricity	3,549,161	(2,866,346)	682,815
Refuse removal	95,816	(75,490)	20,326
	<b>3,644,977</b>	<b>(2,941,836)</b>	<b>703,141</b>

### 4. Statutory receivables

Fines	277,598	258,098
Department of Transport	-	226,098
Halycon	1,121,630	-
Consumer debtors - Rates	61,960,704	58,271,365
Debt impairment	(58,855,105)	(54,351,615)
	<b>4,504,827</b>	<b>4,403,946</b>
Current assets	4,504,827	4,403,946
	<b>4,504,827</b>	<b>4,403,946</b>

#### 30 December 2022

Consumer debtors by debtor type	0-30 Days	90 Days	120 Days	Total
Government	238,066	231,231	2,051,839	2,521,137
Residents and others	6,187,805	5,194,318	45,951,589	57,333,712
Industries	420,229	322,275	1,363,352	2,105,856
	<b>6,846,100</b>	<b>5,747,824</b>	<b>49,366,780</b>	<b>61,960,705</b>

#### 30 June 2021

Consumer debtors by debtor type	0-30 Days	90 Days	120 Days	Total
Government	226,746	213,148	1,125,249	1,565,143
Residents and others	5,395,919	4,190,429	45,010,867	54,597,215
Industries	170,699	128,109	1,810,199	2,109,007
	<b>5,793,364</b>	<b>4,531,686</b>	<b>47,946,315</b>	<b>58,271,365</b>

#### Statutory receivables pledged as security

There were no trade and other receivables pledged as security.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

	2022	2021
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### 4. Statutory receivables (continued)

#### Reconciliation of provision for impairment of statutory receivables

Opening balance	54,093,517	45,579,225
Movement for the year	58,835,605	8,514,292
Unused amounts reversed	(54,093,517)	-
	<b>58,835,605</b>	<b>54,093,517</b>

#### Offsetting

The Council has on approved an item relating to a debt set-off between debt owed by Great Kei Municipality (water services) against the debt owed by the Amathole District Municipality. A reconciliation was prepared between Great Kei Local Municipality and Amathole District Municipality (rates and taxes) and the balance below was set of:

Amathole District Municipalities	Gross amounts before set off	Gross amounts set off	Total
Rates	3,219,499	(3,029,045)	190,454

### 5. VAT receivable

VAT	2,790,895	327,919
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An amount of R1 355 661.82 has been received subsequent to year end and therefore, the recoverability of the amount receivable from SARS is not remote.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022      2021

### 6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	110	1,419
Bank balances	2,054,026	393,030
Short-term deposits	14,555,669	5,049,538
	<b>16,609,805</b>	<b>5,443,987</b>

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	June 30, 2022	June 30, 2021	June 30, 2020	June 30, 2022	June 30, 2021	June 30, 2020
STANDARD BANK - MAIN ACCOUNT - 280720963	2,054,024	403,759	201,028	2,054,026	393,030	140,874
MIG ACCOUNT NO: 388529768-402	1,400,185	2,313,702	3,598,850	1,400,185	2,313,702	3,598,850
MSIG ACCOUNT NO: 388528672-002	862,188	417,758	62,693	862,188	417,758	62,693
EQUITABLE SHARE ACCOUNT NO: 388527544-402	231,533	386,809	6,993	231,533	386,809	6,993
FMG ACCOUNT NO: 388528672-004	5,060,166	40,540	141,002	5,060,166	40,540	141,002
MVR ACCOUNT NO: 285973452	2,743,984	86,233	85,648	2,743,984	86,233	85,648
EPWP ACCOUNT NO: 388523786-002	2,630,410	1,769,352	2,033,325	2,630,410	1,769,352	2,033,326
FNB ACCOUNT NO: 74841787622	1,622,703	35,145	39,182	1,622,703	35,145	39,182
FNB ACCOUNT NO: 62096711843	4,501	-	-	4,501	-	-
<b>Total</b>	<b>16,609,694</b>	<b>5,453,298</b>	<b>6,168,721</b>	<b>16,609,696</b>	<b>5,442,569</b>	<b>6,108,568</b>

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 7. Investment property

	2022		2021	
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation
Investment property	77,800,547	-	77,800,547	77,800,547
				Accumulated depreciation and accumulated impairment
				-
				77,800,547

### Reconciliation of investment property - 2022

Investment property

Opening balance	77,800,547	Total	77,800,547
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### Reconciliation of investment property - 2021

Investment property

Opening balance	82,043,547	Disposals	(4,015,000)	Transfers	(228,000)	Total	77,800,547
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 8. Property, plant and equipment

	2022		2021			
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	82,367,489	-	82,367,489	82,367,489	-	82,367,489
Buildings	155,806,491	(86,013,209)	69,793,282	150,096,119	(82,694,717)	67,401,402
Infrastructure	250,882,485	(188,360,126)	62,522,359	262,973,766	(189,570,677)	73,403,089
Other property, plant and equipment	11,432,858	(8,318,059)	3,114,799	12,101,909	(9,405,072)	2,696,837
Work in progress	31,386,870	-	31,386,870	15,688,858	-	15,688,858
Landfill site asset	9,521,013	(7,362,547)	2,158,466	9,480,681	(7,240,998)	2,239,683
<b>Total</b>	<b>541,397,206</b>	<b>(290,053,941)</b>	<b>251,343,265</b>	<b>532,708,822</b>	<b>(288,911,464)</b>	<b>243,797,358</b>

**Great Kei Local Municipality**  
Annual Financial Statements for the year ended June 30, 2022  
**Notes to the Annual Financial Statements**

Figures in Rand

**8. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2022**

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	82,367,489	-	-	-	-	-	82,367,489
Buildings	67,401,402	-	-	5,706,876	(3,314,996)	-	69,793,282
Infrastructure	73,403,089	-	(1,913,739)	-	(8,900,880)	(66,111)	62,522,359
Other property, plant and equipment	2,696,837	1,079,749	(23,142)	75,850	(646,059)	(68,436)	3,114,799
Work in progress	15,688,858	21,480,738	-	(5,782,726)	-	-	31,386,870
Landfill site asset	2,239,683	-	-	-	(81,217)	-	2,158,466
	<b>243,797,358</b>	<b>22,560,487</b>	<b>(1,936,881)</b>	<b>-</b>	<b>(12,943,152)</b>	<b>(134,547)</b>	<b>251,343,265</b>



# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	82,819,489	228,000	(680,000)	-	-	-	82,367,489
Buildings	65,487,004	488,584	-	4,711,732	(3,285,918)	-	67,401,402
Infrastructure	71,838,064	-	-	9,150,730	(7,566,242)	(19,463)	73,403,089
Other property, plant and equipment	3,529,730	167,574	(185,534)	-	(814,933)	-	2,696,837
Work in progress	13,306,718	16,244,602	-	(13,862,462)	-	-	15,688,858
Landfill site asset	2,320,900	-	-	-	(81,217)	-	2,239,683
	<b>239,301,905</b>	<b>17,128,760</b>	<b>(865,534)</b>	<b>-</b>	<b>(11,748,310)</b>	<b>(19,463)</b>	<b>243,797,358</b>

#### Prior year reclassification within Property plant and equipment

The following sub-classes of Property plant and equipment costs were reclassified in the prior year comparative figures:

#### Class of Property plant and equipment

	Previously disclosed	Reclassification	Total
Building	149,980,859	115,257	150,096,116
Infrastructure	263,089,026	(115,257)	262,973,769
	<b>413,069,885</b>	<b>-</b>	<b>413,069,885</b>

#### Pledged as security

No assets are pledged as security:

Compensation received for losses on property, plant and equipment – included in operating profit.

Other property, plant and equipment

- 34,943

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Maintenance of property, plant and equipment

#### Maintenance of property, plant and equipment by condition - 2022

	Corrective Maintenance	Total
Buildings	Emergency	Total
Office equipment	48,837	48,837
Other property, plant and equipment	54,301	54,301
Mini dumping site	330,367	330,367
Traffic and street lights	97,313	97,313
	11,408	-

#### Maintenance of property, plant and equipment by condition - 2021

	Corrective Maintenance	Total
Buildings	Emergency	Total
Office equipment	63,118	63,118
Other property, plant and equipment	96,572	96,572
Mini dump site	190,043	190,043
	7,000	7,000
	<b>356,733</b>	<b>356,733</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Heritage assets

	2022		2021			
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	36,000	-	36,000	36,000	-	36,000

#### Reconciliation of heritage assets 2022

Art Collections, antiquities and exhibits

Opening balance	36,000	Total	36,000
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#### Reconciliation of heritage assets 2021

Art Collections, antiquities and exhibits

Opening balance	36,000	Total	36,000
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#### Details of the asset:

The municipality owns the following heritage asset:

- Mayoral Gold Plated Brass Chain.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>10. Payables from exchange transactions</b>		
Trade payables	15,949,439	31,898,921
Payments received in advance	9,445,098	12,164,033
Deposits received	6,150,765	(225,431)
Salary control	7,092,272	10,484,894
Retentions	3,017,056	1,508,414
	<b>41,654,630</b>	<b>55,830,831</b>

### Offsetting

The Council has on approved an item relating to a debt set-off between debt owed by Great Kei Municipality (water services) against the debt owed by the Amathole District Municipality. A reconciliation was prepared between Great Kei Local Municipality and Amathole District Municipality (rates and taxes) and the balance below was set of:

Amathole District Municipality	Gross amounts before offsetting	Gross amounts set off	Amounts written off	Current year billing	Total
Water	13,745,963	(5,970,881)	(9,087,951)	2,334,754	1,021,885

### 11. Employee benefit obligation

#### Defined benefit plan

##### Bonuses

Bonuses are paid out to all employees, excluding some senior managers, in the month of their birthdays each year and are based on a 13th monthly basic.

Long service awards to eligible employees are paid for services rendered by employees of 5 years and longer in five year intervals. The service awards are paid as per the municipality's policy which complies with the minimum thresholds per the collective agreement signed by the Bargaining Council. The basis on which this was calculated is as follows:

- After 5 Continuous Years of Service - 2% of Basic Annual Salary and 5 days of accumulative leave
- After 10 Continuous Years of Service - 3% of Basic Annual Salary and 10 days of accumulative leave
- After 15 Continuous Years of Service - 4% of Basic Annual Salary and 15 days of accumulative leave
- After 20 Continuous Years of Service - 5% of Basic Annual Salary and 15 days of accumulative leave
- After 25 Continuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave
- After 30 Continuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave
- After 35 Continuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave
- After 40 Continuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave
- After 45 Continuous Years of Service - 6% of Basic Annual Salary and 15 days of accumulative leave

The estimated contribution for the next financial year.

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

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(10,419,754)	(11,712,208)
Bonus accrual	(1,056,608)	(1,006,820)
Leave pay accrual	(4,165,563)	(4,399,539)
	<b>(15,641,925)</b>	<b>(17,118,567)</b>
Non-current liabilities	(9,485,388)	(11,125,257)
Current liabilities	(6,156,537)	(5,993,310)
	<b>(15,641,925)</b>	<b>(17,118,567)</b>

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>11. Employee benefit obligation (continued)</b>		
<b>Changes in the present value of the defined benefit obligation are as follows:</b>		
Opening balance	11,712,208	8,854,004
Benefits paid	(586,951)	(661,369)
Net expense recognised in the statement of financial performance	(705,503)	3,519,573
	<b>10,419,754</b>	<b>11,712,208</b>
<b>Net expense recognised in the statement of financial performance</b>		
Current service cost	729,957	727,474
Interest cost	1,259,415	1,181,401
Actuarial (gains) losses	(2,694,875)	1,610,698
	<b>(705,503)</b>	<b>3,519,573</b>
<b>Key assumptions used</b>		
Assumptions used at the reporting date:		
Post medical services:	- %	- %
Discount rates used	13.16 %	12.01 %
Consumer price inflation	8.66 %	7.30 %
Health care cost inflation	10.16 %	8.80 %
Net discount rate	2.72 %	2.95 %
Long service award:	- %	- %
Discount rate used	10.93 %	8.02 %
CPI	7.24 %	5.02 %
Salary increase rate	8.24 %	6.02 %
Net discount rate	2.49 %	1.89 %

The long term discount rate was determined as the average of the BEASSA yield curve whilst the CPI was determined from the difference in averages in the Nominal and Real Bond.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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### 11. Employee benefit obligation (continued)

#### Other assumptions

#### Mortality rate

The value of the liabilities is particularly sensitive to the assumed healthcare cost of inflation. The table below sets out the sensitivity of the valuation due to higher or lower mortality rates by increasing and decreasing mortality rates. The effect is as follows:

	20% Mortality rate	Valuation Assumption	+20% Mortality rate
Employer's accrued liability	8,258,570	8,800,900	9,472,564
Employer's current service cost	396,110	400,493	396,110
Employer's expense cost	969,280	1,034,343	933,230

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

	One percentage point increase	One percentage point decrease
Effect on defined benefit obligation	8,764,454	825,424
Effect on service cost	502,346	502,346
Effect on interest cost	1,127,534	1,060,624

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

	2022	2021	2020	2019	2018
Defined benefit obligation	10,014,957	11,712,208	8,854,004	12,324,918	9,955,824

### 12. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

Municipal Infrastructure Grant (MIG)	364,773	-
Expanded Public Works Programme Grant (EPWP)	-	13,009
Integrated National electrification Programme (INEP)	-	479,901
	<b>364,773</b>	<b>492,910</b>

#### Movement during the year

Balance at the beginning of the year	492,910	6,185,722
Additions during the year	15,165,000	13,470,000
Income recognition during the year	(14,800,227)	(19,033,958)
Surrendered to National Revenue Fund	(492,910)	(128,854)
	<b>364,773</b>	<b>492,910</b>

The municipality received conditional grants relating to the construction of Infrastructure assets.

See note 19 for reconciliation of grants from National/Provincial Government.

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

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022      2021

### 13. Provisions

#### Reconciliation of provisions - 2022

	Opening Balance	Additions	Change in discount factor	Total
Environmental rehabilitation	18,406,564	1,119,873	720,802	20,247,239
Legal proceedings	-	1,100,000	-	1,100,000
	<b>18,406,564</b>	<b>2,219,873</b>	<b>720,802</b>	<b>21,347,239</b>

#### Reconciliation of provisions - 2021

	Opening Balance	Additions	Total
Environmental rehabilitation	16,470,113	1,936,451	18,406,564
Non-current liabilities		19,526,437	17,727,362
Current liabilities		1,820,802	679,202
		<b>21,347,239</b>	<b>18,406,564</b>

#### Environmental rehabilitation provision

The obligation for the environmental rehabilitation results from the onus imposed by the Environmental Conservation Act No.73 of 1989 to rehabilitate landfill sites after use. The provision for the rehabilitation of the landfill sites relate to the obligation to rehabilitate the landfill site used for waste disposal.

The landfill sites are nearing the end of their useful lives and the Municipality is still using the existing landfill site for waste disposals because the planned arrangement of utilising the ADM's site which is in Butterworth did not continue for long as planned. However the Municipality had applied for the renewal of the licence for the existing landfill site from the Department of Economic Development and Environmental Affairs and Tourism to continue using it as a short-term measure, but that has not been granted yet due to long processes that are followed by the Department.

### 14. Service charges

Sale of electricity	9,423,502	9,415,007
Refuse removal	8,338,298	10,827,008
	<b>17,761,800</b>	<b>20,242,015</b>

### 15. Rental of facilities and equipment

#### Premises

Premises	47,244	43,549
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### 16. Other income

Handling / payroll commission	53,524	69,025
Building plan fees	476,746	462,413
Business licences	2,610	7,903
Clearance fees	25,427	11,526
Sundry revenue	41,400	32,200
Tender documents	157,053	97,826
Burial and cemetery fees	215	5,145
Connection fees - electricity	261,127	96,809
	<b>1,018,102</b>	<b>782,847</b>

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>17. Interest income</b>		
<b>Interest revenue</b>		
Interest from non-exchange transactions	4,377,795	5,161,296
Bank	694,387	458,246
Interest from exchange transactions	3,352,713	5,864,674
	<b>8,424,895</b>	<b>11,484,216</b>

The amount included in Interest revenue arising from exchange transactions amounted to R3 352 713. **2021:** - R5,864,674

The amount included in Interest revenue arising from non-exchange transactions amounted to R4 377 795. **2021:** R5,161,296.

## 18. Property rates

### Rates revenue

Property rates	33,682,245	25,215,426
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### Valuations

Commercial	68,935,000	32,192,000
Industrial	7,918,000	5,618,000
Multipurpose	12,161,000	3,415,000
Residential	3,105,450,000	2,776,525,000
Small holdings and farms	896,845,000	1,310,486,000
State	156,892,000	96,516,000
Public benefit organisation	19,074,000	1,346,000
Vacant	814,322,800	731,859,800
Public service infrastructure	54,773,520	33,947,800
	<b>5,136,371,320</b>	<b>4,991,905,600</b>

General valuations on land and buildings are performed every 4 years and supplementary valuations are performed annually. The last general valuation came into effect on 1 July 2020. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis

The new general valuation will be implemented as from 01 July 2020 to 30 June 2025.



# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>19. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	46,594,909	51,374,854
Library Subsidy	500,000	500,000
COGTA Grant	2,613,910	6,688,691
	<b>49,708,819</b>	<b>58,563,545</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant	11,271,221	15,098,672
Finance Management Grant	2,450,000	2,400,000
Expanded Public Works Programme	1,079,000	1,011,607
Small Town Revitalization Grant - Office of the Premier	12,563,759	2,727,022
Intergrated Electrification Programme	-	1,547,617
	<b>27,363,980</b>	<b>22,784,918</b>
	<b>77,072,799</b>	<b>81,348,463</b>
<b>Conditional and Unconditional</b>		
Included in above are the following grants and subsidies received:		
Operating grants received	49,708,819	61,290,567
Capital grants received	27,363,980	20,057,896
	<b>77,072,799</b>	<b>81,348,463</b>
<b>Municipal Infrastructure Grant</b>		
Balance unspent at beginning of year	-	4,028,672
Current-year receipts	11,636,000	11,070,000
Conditions met - transferred to revenue	(11,271,227)	(15,098,672)
	<b>364,773</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 12).		
<b>Intergrated National Electrification Programme</b>		
Balance unspent at beginning of year	479,901	2,027,517
Conditions met - transferred to revenue	-	(1,547,616)
Surrendered to National Revenue Fund	(479,901)	-
	<b>-</b>	<b>479,901</b>
Conditions still to be met - remain liabilities (see note 12).		
<b>Financial Management Grant</b>		
Balance unspent at beginning of year	-	128,854
Current-year receipts	2,450,000	2,400,000
Conditions met - transferred to revenue	(2,450,000)	(2,400,000)
Surrendered to National Revenue Fund	-	(128,854)
	<b>-</b>	<b>-</b>
Conditions still to be met - remain liabilities (see note 12).		

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 19. Government grants and subsidies (continued)

#### EPWP Grant

Balance unspent at beginning of year	13,009	616
Current-year receipts	1,079,000	1,024,000
Conditions met - transferred to revenue	(1,079,000)	(1,011,607)
Surrendered to National Revenue Fund	(13,009)	-
	<u>-</u>	<u>13,009</u>

Conditions still to be met - remain liabilities (see note 12).

#### Small Town Revitalization Grant - OTP

Current-year receipts	12,563,759	-
Transferred to revenue	(12,563,759)	-
	<u>-</u>	<u>-</u>

The Small Town Revitalization Grant is an intervention grant from the Eastern Cape - Office of the Premier to assist with the revitalisation of municipal assets.

### 20. Donations received

Donations received	<u>-</u>	<u>416,000</u>
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The prior year donation received from EC-COGTA was for prefabs to assist with office accommodation.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>21. Employee related costs</b>		
Basic	30,994,727	32,484,634
Bonus	2,547,761	2,732,709
Medical aid - company contributions	2,184,487	2,723,324
UIF	216,724	209,501
SDL	347,929	311,830
Other payroll levies	11,351	12,621
Leave pay provision charge	629,891	625,935
Pension	4,249,797	4,629,312
Travel, motor car, accommodation, subsistence and other allowances	1,430,041	1,460,694
Overtime payments	616,306	581,997
Long-service awards	119,607	(56,590)
Acting allowances	63,795	4,166
Housing benefits and allowances	554,385	574,118
Post employment benefits expense	400,493	122,695
	<b>44,367,294</b>	<b>46,416,946</b>
<b>Remuneration of Municipal Manager - L.N. Mambila</b>		
Basic salary	774,215	739,532
Travel allowance	216,426	216,511
Housing allowance	216,426	216,511
Leave pay	236,650	-
Bonus provision	60,000	60,000
	<b>1,503,717</b>	<b>1,232,554</b>
<b>Remuneration of Chief Financial Officer - A. Lwana</b>		
Basic salary	635,563	607,147
Travel allowance	243,573	283,573
Housing subsidy	101,191	101,191
Bonus provision	60,000	20,000
	<b>1,040,327</b>	<b>1,011,911</b>
<b>Remuneration of Director: Strategic Services - M. Mtalo</b>		
Basic salary	625,052	625,052
Travel allowance	168,029	168,029
Housing allowance	156,029	156,029
Bonus provision	60,000	60,000
	<b>1,009,110</b>	<b>1,009,110</b>

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>21. Employee related costs (continued)</b>		
<b>Remuneration of Director: Technical and Community Services - N. Chisango</b>		
Annual remuneration	468,797	-
Travel allowance	198,107	-
Housing allowance	12,259	-
Bonus provision	43,526	-
	<b>722,689</b>	<b>-</b>
Director Technical and Community Services assumed a contract on 01/09/2021.		
<b>22. Remuneration of councillors</b>		
Executive Major	814,945	789,653
Chief Whip	284,565	347,069
Councillors	2,403,039	2,143,077
Councillor's allowances	814,288	1,308,207
Speaker	408,410	-
	<b>4,725,247</b>	<b>4,588,006</b>
<b>Remuneration of Mayor (Speaker) - N.W. Tekile</b>		
Salary	616,708	558,940
Allowances	198,237	230,713
	<b>814,945</b>	<b>789,653</b>
<b>Remuneration of Speaker - Mgema</b>		
Salary	310,588	-
Allowances	97,822	-
	<b>408,410</b>	<b>-</b>
The Council Speaker assumed her position on a full time basis 23 November 2021.		
<b>Remuneration of Whip of Council - Khantshashe</b>		
Salary	98,900	227,002
Allowances	33,306	120,067
	<b>132,206</b>	<b>347,069</b>
<b>Remuneration of Whip of Council - Nzuzo</b>		
Salary	114,526	-
Allowances	37,832	-
	<b>152,358</b>	<b>-</b>
Whip of Council was appointed by the council to assume his duties in 28 January 2022.		
The salaries, allowances and benefits are within the upper limits of the framework envisaged in section 219 of the Constitution.		
<b>23. Depreciation, impairment loss and amortisation</b>		
Property, plant and equipment	12,943,151	11,633,660
Impairment loss	134,547	19,463
	<b>13,077,698</b>	<b>11,653,123</b>

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>24. Finance costs</b>		
Bank overdraft	-	214,151
Provisions	679,202	721,391
Employment benefit obligations	1,259,415	1,181,401
Trade and Other Payables	529,545	613,829
	<b>2,468,162</b>	<b>2,730,772</b>

### 25. Debt impairment

Bad debts written off	44,401,553	21,835,389
Contributions to debt impairment provision	(24,848,172)	7,271,886
	<b>19,553,381</b>	<b>29,107,275</b>

During the current year, the municipality wrote off some irrecoverable debt.

### 26. Bulk purchases

Electricity - Eskom	12,218,921	10,765,184
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#### Electricity losses

	Number 2022	Number 2021		
Units purchased	8,488,703	8,822,706	12,218,921	10,765,184
Units sold	(5,168,588)	(6,478,771)	(7,439,837)	(7,905,189)
<b>Total loss</b>	<b>3,320,115</b>	<b>2,343,935</b>	<b>4,779,084</b>	<b>2,859,995</b>
Comprising of:				
Technical losses	3,320,115	2,343,935	4,779,084	2,859,995
Percentage Loss:				
Technical losses	39 %	27 %	39 %	27 %

Electricity distribution losses have increased from the prior by 12%. Distribution losses are caused by:

1. Dilapidated electrical infrastructure
2. Illegal tempering by consumers - illegal temperings during the National Lockdown period increased substantially..

The municipality has managed to secure funding / grant from the Office of the Premier to the value of R5 million to upgrade the dilapidated infrastructure. On a monthly basis, the municipality monitors electricity sales for each consumer electricity meter and identifies and investigates meters that are possibly tempered with illegally.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>27. General expenses</b>		
Advertising	422,647	257,435
Auditors remuneration	3,395,612	4,036,528
Bank charges	223,267	473,776
Conferences and seminars	44,765	284,252
Consumables	250,986	307,443
Electricity	565,404	548,645
Entertainment	30,935	-
Fuel and oil	1,448,589	1,139,444
I.T related expenses	1,545,371	1,527,163
Indigent relief	450,349	307,622
Insurance	1,029,368	1,344,693
Motor vehicle expenses	83,455	-
Postage and courier	-	247
Printing and stationery	22,484	41,068
Protective clothing	149,878	56,301
Subscriptions	528,834	558,254
Telephone costs	1,446,004	2,145,260
Travel - local	134,715	179,419
Ward Committee expense	463,040	717,880
Water	2,033,590	1,928,146
	<b>14,269,293</b>	<b>15,853,576</b>

### 28. Auditors' remuneration

Fees	3,395,612	4,036,528
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### 29. Related parties

#### Relationships

Accounting Officer	Refer to accounting officer's report note
Mayor	Cllr N.W. Tekile
Speaker	Cllr N.P. Mgema
Chief Whip	Cllr. Z. Nzuzo
Councillors	Cllr. H. Phakamile
	Cllr. M Njanya
	Cllr. M. Twani
	Cllr. Z. Patuluko
	Cllr. W. Sinqana
	Cllr. Z. Tshali
	Cllr. P. Kyriacos
	Cllr. S. Jacobs
	Cllr. M. Matshoba
	Cllr. F.W. Webber
	Cllr C. Norman (Resigned effective 31 January 2022)
<b>Members of key management</b>	
Chief Financial Officer	Mr A Lwana
Director Technical and Community Services	Mrs N Chisango
Director Strategic Services	Mr M Mtalo

Councillors and executive management received salaries for services rendered in relation to their employment in the municipality. Refer to note 21 and 22. No other related party transactions took place.

#### Related party balances

There were no related party balances for the year ended 30 June 2022.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>30. Cash generated from operations</b>		
Surplus	27,226,117	8,399,684
<b>Adjustments for:</b>		
Depreciation and amortisation	13,077,698	11,653,123
Actuarial gains on employee benefit obligations	(2,694,875)	2,825,758
Loss on sale of assets and liabilities	1,936,880	1,238,966
Actuarial loss on landfill site provision	1,161,473	-
Debt impairment	19,553,381	29,107,275
Donations	-	(416,000)
Movements in employee benefit obligation	1,218,232	2,901,367
Movements in provisions	1,779,202	1,936,451
Transfers non cash COGTA Grant	(2,613,910)	-
Other non-cash items ADM Debt relief	(7,902,566)	-
<b>Changes in working capital:</b>		
Receivables from exchange transactions	6,889,767	-
Consumer deposits	(19,553,381)	(29,519,842)
Other receivables from non-exchange transactions	(100,880)	20,610
Payables from exchange transactions	(3,659,719)	(4,916,361)
VAT	(2,462,977)	(3,837,363)
Unspent conditional grants and receipts	(128,137)	(5,692,749)
	<b>33,726,305</b>	<b>13,700,919</b>

### 31. Financial instruments disclosure

#### Categories of financial instruments

##### 2022

#### Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	3,606,442	3,606,442
Cash and cash equivalents	16,609,805	-	16,609,805
	<b>16,609,805</b>	<b>3,606,442</b>	<b>20,216,247</b>

#### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	41,654,630	41,654,630

##### 2021

#### Financial assets

	At fair value	At amortised cost	Total
Receivables from exchange transactions	-	10,496,209	10,496,209
Cash and cash equivalents	5,443,987	-	5,443,987
	<b>5,443,987</b>	<b>10,496,209</b>	<b>15,940,196</b>

#### Financial liabilities

	At amortised cost	Total
Trade and other payables from exchange transactions	55,830,832	55,830,832

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>31. Financial instruments disclosure (continued)</b>		
<b>32. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Construction	33,806,055	2,156,150
<b>Total capital commitments</b>		
Already contracted for but not provided for	33,806,055	2,156,150
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Accounting services	870,020	3,348,078
• ICT	2,594,533	2,713,025
	<b>3,464,553</b>	<b>6,061,103</b>
<b>Total operational commitments</b>		
Already contracted for but not provided for	3,464,553	6,061,103
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	33,806,055	2,156,150
Authorised operational expenditure	3,464,553	6,061,103
	<b>37,270,608</b>	<b>8,217,253</b>

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



# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>33. Contingent liabilities</b>		
	700,000	-

### Pending legal claims

#### 1. IODENE GEZA// GREAT KEI LOCAL MUNICIPALITY AND ANOTHER EC/EL/RC228/15C

An interdict application was brought against the municipality where a member of the Iodene Geza a member of the Public who opened a case of assault against a former GKM Traffic Officer (Mr Denzil Fillis) while he was an employee and he resigned in April 2016.

The municipality could not determine the current year amount claimed by the applicant.

#### 2. JETVEST // GREAT KEI MUNICIPALITY

This is an application that was brought by Jetvest where a defendant has lodged an amended claim against the municipality in reconvention.

The municipality could not determine the current year amount claimed by the applicant.

#### 3. GREAT KEI MUNICIPALITY // MR.MTALO

This is an application that was brought by Great Kei versus Mr.Mtalo who is the director Strategic Services, the disciplinary hearing has not been finalised.

The municipality could not determine the current year amount claimed by the applicant.

#### 4. GREAT KEI LOCAL MUNICIPALITY // MAKHWAYIBA

This is an application that was brought by Great Kei Municipality vs Makhwayiba, the employee was dismissed for misconduct and the matter is before SALGBC with settlement negotiations being entered into.

The municipality could not determine the current year amount claimed by the applicant.

#### 5. AREENA REORT TRUST (RATHBONE) // GREAT KEI LOCAL MUNICIPALITY, GRAHAMSTOWN CASE NO.1601 / 22

On 21 June 2022 the Municipality was ordered to communicate its decision in respect of a subdivision of portion 22, Farm 695, East London and to consider, decide and communicate the decision.

The municipality could not determine the current year amount claimed by the applicant

#### 6. JF VAN DALEN // GREAT KEI LOCAL MUNICIPALITY, GRAHAMSTOWN HIGH COURT CASE NO. 2553 / 2018

The High Court, Grahamstown declared Mr Van Dalen's suspension unlawful in case no. 2813 / 2016. Currently, Mr Van Dalen is claiming for malicious prosecution in the amount of R700 000.00.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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### 34. 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	Re-classification	Restated
Receivables from exchange transactions	4	10,722,307	(226,098)	10,496,209
Statutory receivables	3	4,177,848	226,098	4,403,946
		<b>14,900,155</b>	<b>-</b>	<b>14,900,155</b>

The comparative figures for 2021 have been restated as a result of:

1. Restatement on receivables from exchange transactions and statutory receivables was due to a reclassification of the Department of Transport debtor from Receivables from exchange transactions to Receivables from non exchange transactions..

### 35. Risk management

#### Financial risk management

The municipality's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses non derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provide written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, use of non-derivative financial instruments, and investment of excess liquidity.

#### Liquidity risk

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

#### Credit risk

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. Risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Amounts owed by customers are settled in cash or using major credit cards.

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

Financial instrument	2022	2021
Receivables from exchange transactions	3,606,442	10,496,209
Statutory receivables	4,504,827	4,403,946
Short term deposits	14,555,669	5,049,538

#### Market risk

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.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

	2022	2021
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### 35. Risk management (continued)

#### 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.

### 36. Unauthorised expenditure

Opening balance as previously reported	58,993,755	27,275,159
<b>Opening balance as restated</b>	<b>58,993,755</b>	<b>27,275,159</b>
Add: Expenditure identified - current	-	31,718,596
<b>Closing balance</b>	<b>58,993,755</b>	<b>58,993,755</b>

### 37. Fruitless and wasteful expenditure

Opening balance as previously reported	2,352,689	2,181,734
Correction of prior period error	-	(908,000)
<b>Opening balance as restated</b>	<b>2,352,689</b>	<b>1,273,734</b>
Add: Expenditure identified - current	529,545	1,078,955
<b>Closing balance</b>	<b>2,882,234</b>	<b>2,352,689</b>

The current year fruitless and wasteful expenditure was incurred due to financial constraints

### 38. Irregular expenditure

Opening balance as previously reported	15,704,006	11,512,746
<b>Opening balance as restated</b>	<b>15,704,006</b>	<b>11,512,746</b>
Add: Irregular Expenditure - current	687,998	4,191,260
<b>Closing balance</b>	<b>16,392,004</b>	<b>15,704,006</b>

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 38. Irregular expenditure (continued)

#### Particulars that lead to the incurrence of irregular expenditure

The irregular expenditure amount for prior year was reported to council for a re-investigation as the write off process was not in accordance to s32 of the MFMA and National Treasury Circulars, a council committee was appointed and thus Municipal Public Accounts Committee (MPAC) was appointed during the year to re-investigate the causes of the expenditure and the recoverability thereof.

#### Cases under investigations

There were no investigations conducted during the year under review.

The current year irregular expenditure R687 997.63 was incurred due to non-compliance with Supply Chain Management principles:

- R 188 907.00 - due expenditure incurred on prior year contracts appointed through SCM regulation 32.
- R 499 090.63 - result of non-compliance with SCM regulation 38.

### 39. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

In the current year, the Accounting Officer has not deviated with supply chain management regulations.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>40. Additional disclosures in terms of Municipal Finance Management Act</b>		
<b>Contributions to organized local government</b>		
Opening balance	2,996,661	2,460,400
Current year subscriptions	500,000	536,261
Current year payment	(1,326,738)	-
	<b>2,169,923</b>	<b>2,996,661</b>
<b>Audit fees</b>		
Opening balance	3,099,306	4,969,191
Current year fees	4,083,321	4,865,188
Amounts paid - current year	(2,798,317)	(3,046,382)
Grants received - current year	(2,613,910)	(3,688,691)
	<b>1,770,400</b>	<b>3,099,306</b>
<b>PAYE and UIF</b>		
Opening balance	8,319,249	11,927,582
Current year subscriptions	7,490,382	7,911,018
Amount paid - current year	(10,718,708)	(11,519,351)
	<b>5,090,923</b>	<b>8,319,249</b>
<b>Pension and Medical Aid Contributions</b>		
Opening balance	1,501,244	1,657,014
Current year subscriptions	10,850,389	11,867,822
Amount paid - current year	(11,441,229)	(12,023,592)
	<b>910,404</b>	<b>1,501,244</b>

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

2022

2021

### 41. Segment information

#### General information

#### Identification of segments

The municipality is organised and reports to the municipal council on the basis of the following functional areas: Waste management services, Electrical Services, Traffic services and Town Planning. The segments were organised around the type of service delivered. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

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

#### Aggregated segments

The municipality operates in the Eastern Cape, Amathole District and services the following areas:

1. Haga-Haga
2. Chintsa
3. Kei Mouth.
4. Komga

Segments were aggregated on the basis of services, the type or class of customer to which goods and services are delivered and the method used to distribute the goods or provide the service as management considered that the economic characteristics of the segments throughout the Great Kei Municipal area were sufficiently similar to warrant aggregation.

#### Types of goods and/or services by segment

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

<b>Reportable segment</b>	<b>Goods and/or services</b>
Waste management services	Waste removal
Electrical services	Electrical sales
Traffic services	Licences and permits and transport agency services
Town planning	Building plan approvals
Halls and facilities	Rental of halls and facilities
<b>Non-segments</b>	<b>Administration services</b>
Budget and Treasury	Financial services
Office of the Municipal Manager	Strategic services
Administration and Corporate Services	Administrative services
Segment 7	Goods and/or services 4

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 41. Segment information (continued)

#### Segment surplus or deficit, assets and liabilities

2022

Revenue	Waste management services	Electrical Services	Traffic services	Halls and facilities	Town planning	Total
Revenue from exchange transactions	-	-	-	-	-	-
Service Charges	8,338,303	9,423,502	-	-	-	17,761,805
Rental from Assets Market Related	-	-	-	41,557	-	41,557
Agency services	-	-	177,555	-	-	177,555
Licences and permits	-	-	459,220	-	-	459,220
Other income	-	(3,216)	-	-	476,746	473,530
Interest received	2,985,706	366,474	-	-	-	3,352,180
Revenue from non-exchange transactions	-	-	-	-	-	-
Fines, penalties and forfeits	-	-	19,500	-	-	19,500
<b>Total segment revenue</b>	<b>11,324,009</b>	<b>9,786,760</b>	<b>656,275</b>	<b>41,557</b>	<b>476,746</b>	<b>22,285,347</b>
<b>Non-segment revenue</b>						
Revenue from exchange transactions						544,565
Other income						5,687
Rental from Assets Market Related						694,921
Interest received						77,072,797
Revenue from non-exchange transactions						7,902,566
Government grants and subsidies						33,682,245
Debt forgiveness						4,377,799
Property rates						124,280,580
Interest received						146,565,927
<b>Total revenue reconciling items</b>						
<b>Entity's revenue</b>						

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 41. Segment information (continued)

	Waste management services	Electrical Services	Traffic services	Halls and facilities	Town planning	Total
<b>Expenditure</b>						
Employee related costs	(11,205,992)	(422,478)	(654,076)	(378,995)	(1,447,085)	(14,108,626)
Depreciation and amortization	(81,217)	-	-	-	-	(81,217)
Finance costs	(679,202)	-	-	-	-	(679,202)
Debt impairment	-	28,844,825	-	-	-	28,844,825
Bulk purchases	-	(12,218,921)	-	-	-	(12,218,921)
Contracted services	(242,999)	(294,141)	(43,823)	(34,048)	(53,875)	(668,886)
General expenses	(1,257,129)	(1,222,849)	(101,969)	-	(7,510)	(2,589,457)
Actuarial gain / (loss) on Landfill sites	(1,161,473)	-	-	-	-	(1,161,473)
<b>Total segment expenditure</b>	<b>14,628,012</b>	<b>(14,686,436)</b>	<b>799,868</b>	<b>413,043</b>	<b>1,508,470</b>	<b>2,662,957</b>
<b>Total segmental deficit</b>						<b>19,622,390</b>
Employee related costs						(30,304,161)
Remuneration of councillors						(4,679,754)
Depreciation and amortization						(12,996,481)
Finance costs						(1,788,960)
Lease rentals on operating lease						(261,443)
Debt impairment						(48,398,206)
Contracted services						(7,178,885)
General expenses						(11,679,837)
Actuarial gain / (loss) on employment benefits						-
Actuarial gain / (loss) on Landfill sites						(147,121)
Transfer payments						1,936,880
Loss on disposal of non-current assets						124,280,580
Total revenue reconciling items						2,694,875
<b>Entity's total reconciling surplus for the period</b>						<b>27,226,117</b>



# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

	Waste management services	Electrical Services	Traffic services	Halls and facilities	Town planning	Total
<b>41. Segment information (continued)</b>						
<b>Assets</b>						
Receivables from exchange transactions	(31,268,298)	(2,704,640)	-	-	-	(33,972,938)
Property, plant and equipment	-	2,204,706	-	26,085	-	2,230,791
<b>Total segment assets</b>	<b>(31,268,298)</b>	<b>(499,934)</b>	<b>-</b>	<b>26,085</b>	<b>-</b>	<b>(31,742,147)</b>
Cash and cash equivalents						16,609,805
Receivables from non exchange transactions						4,504,826
Receivables from exchange transactions						37,579,381
Heritage assets						36,000
Investment property						77,800,547
Property plant and equipment						249,111,576
Vat						2,791,793
<b>Total assets as per Statement of financial Position</b>						<b>356,691,781</b>
<b>Liabilities</b>						
Payables from exchange transactions	-	-	-	-	(381,563)	(381,563)
Provisions	(20,247,239)	-	-	-	-	(20,247,239)
VAT	-	(898)	-	-	-	(898)
<b>Total segment liabilities</b>	<b>(20,247,239)</b>	<b>(898)</b>	<b>-</b>	<b>-</b>	<b>(381,563)</b>	<b>(20,629,700)</b>
Unspent conditional grants and receipts						(364,774)
Payables from exchange transactions						(41,272,168)
Provisions						(1,100,000)
Employee benefit obligation						(15,641,925)
<b>Total liabilities as per Statement of financial Position</b>						<b>(79,008,567)</b>
<b>2021</b>						

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 41. Segment information (continued)

	Waste management services	Electrical Services	Traffic Services	Halls and facilities	Town planning	Total
<b>Revenue</b>						
Service Charges	10,827,005	9,415,010	-	-	-	20,242,015
Rental from Assets Market related	-	-	-	43,549	-	43,549
Agency services	-	-	155,080	-	-	155,080
Licences and permits	-	-	155,755	-	-	155,755
Other income	-	86,916	-	8,889	462,413	558,218
Interest revenue	3,462,336	317,600	-	-	-	3,779,936
Revenue from non-exchange transactions	-	-	-	-	-	-
Government grants	-	1,547,617	-	535,981	-	2,083,598
Fines, penalties and forfeits	-	-	43,300	-	-	43,300
<b>Total segment revenue</b>	<b>14,289,341</b>	<b>11,367,143</b>	<b>354,135</b>	<b>588,419</b>	<b>462,413</b>	<b>27,061,451</b>
Other income						224,442
Interest received						2,542,984
Government grants and subsidies						79,264,873
Property rates						25,215,426
Interest received						5,161,295
Donations						416,000
<b>Total revenue reconciling items</b>						<b>112,825,020</b>
<b>Entity's revenue</b>						<b>139,886,471</b>
<b>Expenditure</b>						
Employee related costs	(12,341,208)	(1,218,778)	741,570	-	(1,688,681)	(14,507,097)
Bulk purchases	-	(10,765,184)	-	-	-	(10,765,184)
Contracted services	(130,606)	(29,352)	-	-	(103,992)	(263,950)
General expenses	(33,569)	(502,041)	18,521,513	(18,630,822)	(31,774)	(676,693)
<b>Total segment expenditure</b>	<b>12,505,383</b>	<b>12,515,355</b>	<b>(19,263,083)</b>	<b>18,630,822</b>	<b>1,824,447</b>	<b>26,212,924</b>
<b>Total segmental surplus/(deficit)</b>						<b>848,527</b>

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

	Waste management services	Electrical Services	Traffic Services	Halls and facilities	Town planning	Total
<b>41. Segment information (continued)</b>						
Total revenue reconciling items						112,825,020
Employee related costs						(31,909,849)
Remuneration of councillors						(4,588,006)
Depreciation and amortization						(11,653,123)
Finance costs						(2,730,772)
Lease rentals on operating lease						(220,002)
Debt impairment						(29,107,275)
Contracted services						(5,823,230)
General expenses						(15,176,882)
Actuarial gain / (loss) on employment benefits						(1,610,698)
Actuarial gain / (loss) on landfill sites						(1,215,060)
Gain on disposal non-current assets						(1,238,966)
<b>Entity's surplus (deficit) for the period</b>						<b>8,399,684</b>

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.

### Measurement of segment surplus or deficit, assets and liabilities

### Basis of accounting for transactions between reportable segments

The accounting policies of the segments are the same as those described in the summary of significant accounting policies.

### Information about geographical areas

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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### 41. Segment information (continued)

The municipality's operations are in the Eastern Cape Province. Listed below are the geographical segments of the municipality:

1. Ward 1 - Chintsa
2. Ward 2 - Cefane, Makhazi, Ngxingxolo, Taiton and Slatsha
3. Ward 3 - Sotho, Elityeni, Stungu, Nyarha, Lusizini and Magrangxeni.
4. Ward 4 - Mzwini, Mangqukela, Lusasa and Belekumntwana
5. Ward 5 - Morgans Bay, Haga-haga and Kei Mouth
6. Ward 6 - Siviwe, Draaibosch and Happy valley
7. Ward 7 - Komga, Tyityaba, Waterfalls and Dongweni

Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout the Great Kei Municipal area were sufficiently similar to warrant aggregation

The municipality does however not monitor operating results of the geographical segments, and operational results are only monitored within the business units as previously disclosed.

### 42. Budget differences

#### Material differences between budget and actual amounts

Difference below 10% are considered to be insignificant for the purposes of explaining budget differences, therefore, only differences above the 10% threshold are explained below:

#### Statement of Financial Performance

##### Revenue

1. Waste management - Revenue from waste management budget is more due to expectation of additional houses.
2. Rental of facilities and equipment - No bookings were made for facilities during peak seasons due to slack economy.
3. Agency fees - Other services were not offered at traffic department due to shortage of staff.
4. Licences and permits - Limited number of bookings for permits and licences due to shortage of staff.
5. Other income - no bookings were made for facilities during peak season due to slack economy.
6. Interest, dividends and rent on land - The variance is interest billed on non-paying customers and unwillingness to pay accounts on time due to valuation queries.
7. Government grants and subsidies - This line item varied due to additional grants received by Provincial Departments on behalf of the institution.
8. Debt Forgiveness - The variance is due to a debt set-off between the Amathole District Municipality and Great Kei which was not budgeted for under payables and revenue.

##### Expenditure

9. Employee related costs - The variance is due to long outstanding cases of employees that were finalised and accrued at year.
10. Remuneration of councillors - The variance is for anticipated upper limits on remuneration of councillors increment that was not implemented due to financial constraints. and also due to a change in the municipal structure, changing from a plenary to an executive council as per the amended structures Act.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand

2022

2021

### 42. Budget differences (continued)

11. Finance costs - Interest charged by creditors due to late payment by municipality and also interest raised on provision on landfill site and employee benefit obligations.

12. Lease rentals on operating lease - The budget for lease rental is under general expenses as this line is not separated on the National Treasury Budget Schedule.

13. Contracted services - Underspending was caused by implementation of cost containment measures.

14. Transfers and subsidies - this line item was budgeted for under contracted services but due to the nature of transaction it has been correctly allocated to the line item of Transfers and subsidies as it is grant expenditure.

15. General expenditure - Underspending was due to cost containment measures.

### Statement of Financial Position

#### Assets

##### Current Assets

16. Receivables from exchange - This line item is budgeted for under consumer debtors as it is not a separate line item on the National Treasury Budget Schedule, the variance is more than 10% and it is due to the provision for impairment of debtors not accounted for.

17. Statutory receivables - This line item is budgeted for under consumer debtors as it is not a separate line item on the National Treasury Budget Schedule, the variance is more than 10% and it is due to the provision for impairment of debtors not accounted for.

18. VAT Receivable - The variance is more than 10%, this line item was not budgeted for in the year under review.

19. Consumer debtors - The variance is due to the actual amounts are trancted on to different items and thus Statutory and receivables from exchange transactions.

20. Cash & Cash Equivalents – The variance is more than 10% and this is due to over estimated budget wherein the municipality anticipated to receive additional grants that were approved by EC- Human Settlements which never materialised as the end of the Fincial Year as well as anticipation of increased debt collection rate.

##### Non - Current Assets

21. Property, Plant & Equipment – The variance is more than 10% this is due to over estimated budget .

##### Current Liabilities

22. Trade and Other Payable Exchange Transactions – The variance is above 10% when comparing budget, this is due to an increase in current year movement of payables.

23. Employee obligation benefit - The variance is more than 10% when comparing budge to actual movement, this line item is budgeted for under provisions as it is not a separate line item on the National Treasury Budget Schedule.

24. Unspent conditional grants – the municipality did not budget for unspent conditional grants because it envisaged that all conditional grants will be spent in full in 2021/2022

25. Provisions - The variance is more than 10% when comparing estimated budget to over actual movement due to legal fees provisions that were not anticipated during the year.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022                      2021

### 43. Going concern

We draw attention to the fact that at June 30, 2022, the municipality had an accumulated surplus of 277,683,214 and that the municipality's total assets exceed its liabilities by 277,683,214.

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.

However the municipality has noted that it is unable to meet its obligations on time due to cash flow constraints. The management of the municipality has assessed the financial status of the municipality and are confident that the municipal will continue with the operations in the forceable future, given the above, and that we are a government institution with legislated funding that enable us to provide services to the communities.

### 44. Contracted services

#### Outsourced Services

Business and Advisory	2,380,419	2,900,514
VAT recovery	433,992	159,191
Occupational health	7,263	1,800
Mini Dumping Sites	97,313	7,000
Personnel and Labour	1,034,898	1,100,184
Security Services	5,618	17,840
Sewerage Services	63	-

#### Consultants and Professional Services

Valuation services	995,650	1,185,648
Legal Cost	2,166,440	285,992

#### Contractors

Refreshments	62,443	28,269
Maintenance of Buildings and Facilities	48,837	74,591
Maintenance of Equipment	54,301	96,572
Maintenance of Unspecified Assets	330,367	222,403
Pest Control and Fumigation	-	7,175
Prepaid Electricity Vendors	218,759	-
Traffic and Street Lights	11,409	-

**7,847,772                      6,087,179**

### 45. Transfers and subsidies

#### Other subsidies

Hlathi Primary Cooperative	49,800	-
Morgan Bay Multipurpose Cooperative	47,820	-
Sithungu Primary Agricultural Cooperative	49,501	-
	<b>147,121</b>	<b>-</b>

The municipality assisted local co-operatives by buying them agricultural inputs as part of the Local Economic Development initiative.

# Great Kei Local Municipality

Annual Financial Statements for the year ended June 30, 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 46. Debt forgiveness

Amathole District Municipality (ADM)	7,902,566	-
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The Council has on approved an item relating to a debt set-off between debt owed by Great Kei Municipality (water services) against the debt owed by the Amathole District Municipality. A reconciliation was prepared between Great Kei Local Municipality and Amathole District Municipality (rates and taxes) and the balance above was set off.