



**Amahlathi Local Municipality
(Registration number EC 124)
Annual Financial Statements
for the year ended 30 June 2021**

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

General Information

Grading of local authority	Grade 3
Chief Finance Officer (CFO)	L Manjingolo
Accounting Officer	I Sikhulu-Nqwena
Registered office	12 Maclean Street Stutterheim 4930
Business address	12 Maclean Street Stutterheim 4930
Postal address	Private Bag X 4002 Stutterheim 4930
Bankers	First National Bank Stutterheim
Auditors	Auditor-General South Africa Registered Auditors
Mayoral Committee	A Hobo (Mayor) N Mlahleki (Exco) N Pose (Exco) N Monti (Exco) N Kato-Manyika (Exco) T Balindlela (Exco)

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

General Information

Councillors

M Mjikelo (Speaker)
X Nqata (MPAC)
N Nongqayi
X Mngxaso
P Qaba
N Busika (Deceased)
P Ntwanambi
N Ngxakangxaka
C Ngxingolo
R Pickering
D Gxekwa
M Ngcofe
X Tokwe
N Tikazayo
M Nqini
V Tshaka
S Venkile (Deceased)
R Desi
G Noxeke
N Nkonya-Mtati
G Mxosa
N Klaas
N Ncevu
NC Mkiva
B Xongwana
SC Matini
N Mbulana

Traditional leaders

Z Gundle
S Mdledle
K Sandile
X Zake
N Mekuto
A Daka

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Index

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

	Page
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 - 43
Notes to the Annual Financial Statements	44 - 87

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance 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 (Previously CMIP)

The annual financial statements set out on pages 4 to 87, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2021 and were signed on its behalf by:

I Sikhulu-Nqwena
Accounting officer

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
Assets			
Current Assets			
Inventories	3	229 697	360 455
Consumer debtors	4	6 432 515	7 124 458
Receivables from non-exchange transactions	5	10 018 173	10 950 459
Cash and cash equivalents	6	13 426 476	46 931 240
VAT receivable	7	2 535 476	119 200
		32 642 337	65 485 812
Non-Current Assets			
Long-term receivables	8	346 551	346 551
Biological assets that form part of an agricultural activity	9	4 060 087	3 420 800
Investment property	10	11 810 023	13 602 261
Property, plant and equipment	11	389 495 242	359 768 819
Intangible assets	12	187 038	428 191
Heritage assets	13	610 183	610 183
		406 509 124	378 176 805
Total Assets		439 151 461	443 662 617
Liabilities			
Current Liabilities			
Finance lease obligation	14	16 244	176 620
Payables from exchange transactions	15	106 121 710	90 693 206
Consumer deposits	16	1 838 186	1 799 583
Employee benefit obligation	17	16 699 114	17 144 597
Unspent conditional grants and receipts	18	906 313	38 067 472
Provisions	19	417 728	142 225
		125 999 295	148 023 703
Non-Current Liabilities			
Finance lease obligation	14	-	16 244
Employee benefit obligation	17	35 849 000	31 421 000
Provisions	19	7 048 501	4 503 148
		42 897 501	35 940 392
Total Liabilities		168 896 796	183 964 095
Net Assets		270 254 665	259 698 522
Accumulated surplus		270 254 665	259 698 522
Total Net Assets		270 254 665	259 698 522

* See Note 41

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	20	49 582 506	38 496 868
Rental of facilities and equipment		58 386	58 379
Interest received - debtors		7 057 481	7 115 796
Licences and permits		2 388 017	1 182 695
Other revenue		6 900 482	961 134
Administration and management fees received		1 348	-
Insurance refund		1 501 602	35 967 739
Interest received - investment	21	1 001 492	1 434 498
Fair value adjustments		802 832	-
Total revenue from exchange transactions		69 294 146	85 217 109
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	22	20 796 268	18 993 139
Transfer revenue			
Government grants & subsidies	23	190 873 276	123 936 090
Fines, Penalties and Forfeits		5 826	15 617
Motor vehicle registrations		1 394 015	1 758 447
Total revenue from non-exchange transactions		213 069 385	144 703 293
Total revenue		282 363 531	229 920 402
Expenditure			
Employee related costs	24	(132 726 200)	(123 999 634)
Remuneration of councillors	25	(11 598 706)	(11 993 467)
Vending management fee	26	(253 552)	(838 884)
Depreciation and amortisation	27	(24 354 885)	(26 647 423)
Impairment loss on non-current assets	28	(1 215 365)	-
Finance costs	29	(3 801 999)	(2 667 328)
Rentals - Printing machines		(184 112)	(11 583)
Debt Impairment	30	(26 485 045)	(32 643 558)
Leave pay provision		-	(149 792)
Bulk purchases	31	(35 883 789)	(33 308 552)
Contracted services	32	(13 270 111)	(12 019 749)
Loss on disposal of assets and liabilities		(1 661 813)	(4 075 155)
Fair value adjustments		-	(200 074)
General Expenses	33	(20 371 816)	(17 233 125)
Total expenditure		(271 807 393)	(265 788 324)
Surplus (deficit) for the year		10 556 138	(35 867 922)

* See Note 41

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	295 157 687	295 157 687
Adjustments		
Prior year adjustments	408 757	408 757
Balance at 01 July 2019 as restated*	295 566 444	295 566 444
Changes in net assets		
Deficit for the prior year as previous reported	(28 259 898)	(28 259 898)
Prior period adjustments	(7 608 024)	(7 608 024)
Deficit for the year	(35 867 922)	(35 867 922)
Restated* Balance at 01 July 2020	259 698 527	259 698 527
Changes in net assets		
Surplus for the year	10 556 138	10 556 138
Total changes	10 556 138	10 556 138
Balance at 30 June 2021	270 254 665	270 254 665
Note(s)		

* See Note 41

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
Cash flows from operating activities			
Receipts			
Cash receipts from customers		55 351 358	71 628 482
Grants		190 873 276	123 936 090
Interest income		8 058 973	8 550 295
		<u>254 283 607</u>	<u>204 114 867</u>
Payments			
Employee costs		(144 324 907)	(135 993 100)
Suppliers		(84 723 298)	(16 533 548)
Finance costs		(3 801 999)	(2 667 328)
		<u>(232 850 204)</u>	<u>(155 193 976)</u>
Net cash flows from operating activities	35	<u>21 433 403</u>	<u>48 920 891</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(54 761 550)	(11 907 946)
Purchase of other intangible assets	12	-	(24 300)
Net cash flows from investing activities		<u>(54 761 550)</u>	<u>(11 932 246)</u>
Cash flows from financing activities			
Finance lease payments		<u>(176 620)</u>	<u>(172 353)</u>
Net increase/(decrease) in cash and cash equivalents		<u>(33 504 767)</u>	<u>36 816 292</u>
Cash and cash equivalents at the beginning of the year		<u>46 931 240</u>	<u>10 114 948</u>
Cash and cash equivalents at the end of the year	6	<u>13 426 473</u>	<u>46 931 240</u>

* See Note 41

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

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						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	44 992 000	3 541 053	48 533 053	49 582 506	1 049 453	FinPerf1
Rental of facilities and equipment	251 000	(80 000)	171 000	58 386	(112 614)	FinPerf2
Interest received (trading)	6 000 000	2 000 000	8 000 000	7 057 481	(942 519)	FinPerf3
Licences and permits	2 740 000	(400 000)	2 340 000	2 388 017	48 017	FinPerf4
Other revenue	1 123 300	(423 000)	700 300	6 900 482	6 200 182	FinPerf5
Administration and management fees received	-	-	-	1 348	1 348	FinPerf6
Insurance refunds	1 000	115 023	116 023	1 501 602	1 385 579	FinPerf7
Interest received - investment	1 845 000	-	1 845 000	1 001 492	(843 508)	FinPerf8
Total revenue from exchange transactions	56 952 300	4 753 076	61 705 376	68 491 314	6 785 938	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	23 784 700	-	23 784 700	20 796 268	(2 988 432)	FinPerf9
Transfer revenue						
Transfer and subsidies	119 344 962	25 581 947	144 926 909	190 873 276	45 946 367	FinPerf10
Fines, Penalties and Forfeits	106 000	-	106 000	5 826	(100 174)	FinPerf11
Motor vehicle registrations	1 000 000	300 000	1 300 000	1 394 015	94 015	FinPerf12
Total revenue from non-exchange transactions	144 235 662	25 881 947	170 117 609	213 069 385	42 951 776	
Total revenue	201 187 962	30 635 023	231 822 985	281 560 699	49 737 714	
Expenditure						
Employee related costs	(113 212 703)	-	(113 212 703)	(132 726 200)	(19 513 497)	FinPerf13
Remuneration of councillors	(12 200 000)	-	(12 200 000)	(11 598 706)	601 294	FinPerf14
Vending management fee	(450 000)	(50 000)	(500 000)	(253 552)	246 448	FinPerf15
Depreciation and amortisation	(26 000 000)	-	(26 000 000)	(24 354 885)	1 645 115	FinPerf16
Impairment loss on non-current assets	-	-	-	(1 215 365)	(1 215 365)	
Finance costs	(1 000 000)	(2 000 000)	(3 000 000)	(3 801 999)	(801 999)	FinPerf17
Lease rentals on operating lease	(300 000)	150 000	(150 000)	(184 112)	(34 112)	FinPerf18
Debt Impairment	(10 000 000)	-	(10 000 000)	(26 485 045)	(16 485 045)	FinPerf19
Leave pay provision	(624 450)	-	(624 450)	-	624 450	FinPerf20
Bulk purchases	(31 000 000)	(2 000 000)	(33 000 000)	(35 883 789)	(2 883 789)	FinPerf21
Contracted Services	(13 956 509)	(4 181 690)	(18 138 199)	(13 270 111)	4 868 088	FinPerf22
General Expenses	(18 444 300)	4 243 090	(14 201 210)	(20 371 816)	(6 170 606)	FinPerf23
Total expenditure	(227 187 962)	(3 838 600)	(231 026 562)	(270 145 580)	(39 119 018)	
Operating surplus	(26 000 000)	26 796 423	796 423	11 415 119	10 618 696	
Loss on disposal of assets and liabilities	-	-	-	(1 661 813)	(1 661 813)	
Fair value adjustments	-	-	-	802 832	802 832	

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

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						
	-	-	-	(858 981)	(858 981)	
Surplus before taxation	(26 000 000)	26 796 423	796 423	10 556 138	9 759 715	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(26 000 000)	26 796 423	796 423	10 556 138	9 759 715	

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

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						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	1 313 847	(127 407)	1 186 440	229 697	(956 743)	FinPos1
Receivables from non-exchange transactions	12 550 019	3 733 077	16 283 096	10 018 173	(6 264 923)	FinPos2
VAT receivable	-	-	-	2 535 476	2 535 476	FinPos3
Consumer debtors	23 660 398	(16 535 940)	7 124 458	6 432 515	(691 943)	FinPos4
Cash and cash equivalents	26 817 752	238 603	27 056 355	13 426 476	(13 629 879)	FinPos5
	64 342 016	(12 691 667)	51 650 349	32 642 337	(19 008 012)	
Non-Current Assets						
Biological assets that form part of an agricultural activity	3 620 874	(200 074)	3 420 800	4 060 087	639 287	FinPos6
Investment property	20 720 569	(7 116 538)	13 604 031	11 810 023	(1 794 008)	FinPos7
Property, plant and equipment	421 456 998	(2 946 744)	418 510 254	389 495 242	(29 015 012)	FinPos8
Intangible assets	737 970	(216 771)	521 199	187 038	(334 161)	FinPos9
Heritage assets	610 183	-	610 183	610 183	-	FinPos10
Long-term receivables	346 550	-	346 550	346 551	1	FinPos11
	447 493 144	(10 480 127)	437 013 017	406 509 124	(30 503 893)	
Total Assets	511 835 160	(23 171 794)	488 663 366	439 151 461	(49 511 905)	
Liabilities						
Current Liabilities						
Finance lease obligation	146 213	30 407	176 620	16 244	(160 376)	FinPos12
Payables from exchange transactions	52 149 956	39 716 130	91 866 086	106 121 711	14 255 625	FinPos13
Consumer deposits	1 815 116	(15 533)	1 799 583	1 838 186	38 603	FinPos14
Employee benefit obligation	20 997 276	(3 852 679)	17 144 597	16 699 114	(445 483)	FinPos15
Unspent conditional grants and receipts	4 400 590	599 410	5 000 000	906 313	(4 093 687)	FinPos16
Provisions	142 225	-	142 225	417 728	275 503	FinPos14
	79 651 376	36 477 735	116 129 111	125 999 296	9 870 185	
Non-Current Liabilities						
Finance lease obligation	219 004	(202 760)	16 244	-	(16 244)	FinPos12
Employee benefit obligation	32 965 980	(1 544 980)	31 421 000	35 849 000	4 428 000	FinPos13
Provisions	-	4 503 148	4 503 148	7 048 501	2 545 353	FinPos17
	33 184 984	2 755 408	35 940 392	42 897 501	6 957 109	
Total Liabilities	112 836 360	39 233 143	152 069 503	168 896 797	16 827 294	
Net Assets	398 998 800	(62 404 937)	336 593 863	270 254 664	(66 339 199)	
Net Assets						
Accumulated surplus	398 998 800	(62 404 937)	336 593 863	270 254 664	(66 339 199)	

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

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

Cash Flow Statement

Cash flows from operating activities

Receipts

Cash receipts from customers	73 998 000	(31 437 492)	42 560 508	55 351 358	12 790 850	C1
Grants	151 256 022	45 603 690	196 859 712	190 873 276	(5 986 436)	C2
Interest income	7 845 000	2 000 000	9 845 000	8 058 973	(1 786 027)	C3
	233 099 022	16 166 198	249 265 220	254 283 607	5 018 387	

Payments

Employee costs	(125 412 703)	-	(125 412 703)	(144 324 906)	(18 912 203)	C4
Suppliers	(73 571 383)	6 957 524	(66 613 859)	(84 723 298)	(18 109 439)	C5
Finance costs	(1 000 000)	(2 000 000)	(3 000 000)	(3 801 999)	(801 999)	C6
	(199 984 086)	4 957 524	(195 026 562)	(232 850 203)	(37 823 641)	

Net cash flows from operating activities	33 114 936	21 123 722	54 238 658	21 433 404	(32 805 254)	
---	-------------------	-------------------	-------------------	-------------------	---------------------	--

Cash flows from investing activities

Purchase of property, plant and equipment	(32 016 460)	(20 712 766)	(52 729 226)	(54 761 550)	(2 032 324)	C7
---	--------------	--------------	---------------------	--------------	--------------------	----

Cash flows from financing activities

Finance lease payments	-	(172 353)	(172 353)	(176 620)	(4 267)	C8
------------------------	---	-----------	------------------	-----------	----------------	----

Net increase/(decrease) in cash and cash equivalents	1 098 476	238 603	1 337 079	(33 504 766)	(34 841 845)	
--	-----------	---------	------------------	--------------	---------------------	--

Cash and cash equivalents at the beginning of the year	25 719 276	-	25 719 276	46 931 240	21 211 964	
--	------------	---	-------------------	------------	-------------------	--

Cash and cash equivalents at the end of the year	26 817 752	238 603	27 056 355	13 426 474	(13 629 881)	
---	-------------------	----------------	-------------------	-------------------	---------------------	--

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

Figures in Rand	Note(s)	2021	2020
-----------------	---------	------	------

1. Presentation of Annual Financial Statements

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

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

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 Going concern assumption

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

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

Trade and other receivables

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

The impairment for trade receivables is calculated on an individual debtor basis, based on historical loss ratios, debtor type and other indicators present at the reporting date that correlate with defaults on the portfolio.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

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 [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

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

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 19 - 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 high-quality corporate bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 17.

Effective interest rate

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

Useful lives of Property, plant and equipment, Intangible assets and Investment property

The municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use.

The useful lives of assets are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets in order to determine the optimum useful life expectation, where appropriate.

The estimation of residual values of assets are based on management's judgement as to whether the assets will be sold or used to the end of their useful lives, and in what condition they will be at that time.

1.5 Biological assets that form part of an agricultural activity

The entity recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.5 Biological assets that form part of an agricultural activity (continued)

Biological assets that form part of an agricultural activity are measured at their fair value less costs to sell.

The fair value of the vine / pine plantations is based on the combined fair value of the land and the vines / pine trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the vines / pine trees.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

1.6 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.

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 over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Property - buildings	20 - 30 years
Lifts	10 - 80 years
Air-conditioners	10 - 15 years
Other components	5 - 50 years

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.

1.7 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.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.7 Property, plant and equipment (continued)

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

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

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

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

Item	Depreciation method	Average useful life
Infrastructure	Straight-line	
• Roads and Paving		10 - 80 years
• Cemeteries		25 - 30 years
• Airports		25 - 30 years
Community	Straight-line	
• Capital work in progress		Not depreciated
• Land		Indefinite
• Electricity		10 - 60 years
• Landfill sites		15 - 40 years
Other	Straight-line	
• Buildings		25 - 30 years
• Machinery and equipment		4 - 15 years
• Computer equipment		3 - 5 years
• Furniture and office equipment		5 - 7 years
• Transport assets		4 - 7 years
• Office equipment - Leased Assets		3 - 15 years
• Buildings airconditioning system		10 - 15 years

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.7 Property, plant and equipment (continued)

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

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

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

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

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

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

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

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.

Incomplete construction work

Incomplete construction work is stated at historical cost, depreciation only commences when the asset is available for use.

Finance leases

Assets capitalised under finance lease are depreciated over the expected useful lives on the same basis as property, plant and equipment controlled by the municipality, or where shorter the term of the relevant lease if there is no reasonable surety terms of the asset.

Infrastructure assets

Infrastructure assets are any assets that are part of a network or similar assets. Infrastructure assets are shown at cost less accumulated depreciation and impairment. Infrastructure assets are treated similarly to all assets of the municipality in terms of the asset management policy.

1.8 Intangible assets

An asset is identifiable if it either:

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

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.8 Intangible assets (continued)

An intangible asset is recognised when:

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

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

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

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

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

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

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	2 - 5 years

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 12).

Intangible assets are derecognised:

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

1.9 Heritage assets

Assets are resources controlled by an 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 an municipality's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

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

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Heritage assets (continued)

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.

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 (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.10 Financial instruments

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

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

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

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

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

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

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 Financial instruments (continued)

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

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

A financial asset is:

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

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

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

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

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

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

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 fair value comprise financial assets or financial liabilities that are:

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

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 Financial instruments (continued)

Classification

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

Class	Category
Trade and other receivables from exchange transactions	Financial asset measured at amortised cost
Other receivables from non-exchange transactions	Financial asset measured at amortised cost
Long-term receivables	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost
Bank and Cash	Financial asset measured at amortised cost

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

Class	Category
Trade and other payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost

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:

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.

The entity recognises financial assets using trade date accounting.

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.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 Financial instruments (continued)

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.

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, an 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:

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

Where the entity cannot reliably measure the fair value of an embedded derivative that has been separated from a host contract that is a financial instrument at a subsequent reporting date, it measures the combined instrument at fair value. This requires a reclassification of the instrument from amortised cost or cost to fair value.

If fair value can no longer be measured reliably for an investment in a residual interest measured at fair value, the entity reclassifies the investment from fair value to cost. The carrying amount at the date that fair value is no longer available becomes the cost.

If a reliable measure becomes available for an investment in a residual interest for which a measure was previously not available, and the instrument would have been required to be measured at fair value, the entity reclassifies the instrument from cost to fair value.

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.

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:

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

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.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

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.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 Financial instruments (continued)

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.

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.

1.11 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.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

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

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

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

Derecognition

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

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

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

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.12 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessor

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

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

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

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

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

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

1.13 Inventories

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;

- distribution at no charge or for a nominal charge; or
- consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.13 Inventories (continued)

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

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

1.14 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.

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.

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.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Recognition and measurement of 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.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.14 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.

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.

1.15 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

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

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

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

Useful life is either:

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

The present value of the remaining service potential of a non-cash-generating asset is determined as the depreciated replacement cost of the asset. The replacement cost of an asset is the cost to replace the asset's gross service potential. This cost is depreciated to reflect the asset in its used condition. An asset may be replaced either through reproduction (replication) of the existing asset or through replacement of its gross service potential. The depreciated replacement cost is measured as the current reproduction or replacement cost of the asset, whichever is lower, less accumulated depreciation calculated on the basis of such cost, to reflect the already consumed or expired service potential of the asset.

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an oversized or overcapacity asset. Oversized assets contain features which are unnecessary for the goods or services the asset provides. Overcapacity assets are assets that have a greater capacity than is necessary to meet the demand for goods or services the asset provides. The determination of the replacement cost or reproduction cost of an asset on an optimised basis thus reflects the service potential required of the asset.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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.

1.16 Employee benefits

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

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

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

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

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

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

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

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

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

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.16 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.

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.16 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.

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.

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

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

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

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.

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.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.16 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.

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The amount recognised as a liability for other long-term employee benefits 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.

The entity shall recognise the net total of the following amounts as expense or revenue, 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 right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

1.17 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.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.17 Provisions and contingencies (continued)

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 (deficit).

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 38.

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, an municipality recognises the obligation at the higher of:

- the amount determined using in 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.

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.14 and 1.15.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.18 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.19 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.

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.19 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 in surplus or deficit using the effective interest rate method.

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

Service charges

Service charges relating to electricity are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue without being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. The tariffs are determined per category of property usage and levied monthly based on the number of refuse containers on each property, regardless of whether or not the containers are emptied during the month.

Finance income

Interest earned on investment is recognised in the statement of financial performance on the time apportionment basis taking into account the effective yield on the investment.

Tariff charges

Revenue arising from the application of the approved tariffs is recognised when the service is rendered by applying the relevant authorisation tariff. This includes the issue of licenses and permits.

Income from agency services

Income from agency services is recognised on a monthly basis once the income collected on behalf of the agents has been quantified. The income is recognised in terms of the agency agreement.

Rentals

Revenue from the rental of facilities and equipment classified as operating leases is recognised over the term of the lease agreement, where such terms spans over more than one financial year a straight-line basis is used

1.20 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.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

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.

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.

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

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

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

Recognition

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

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

Measurement

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

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

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.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.20 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.

Public contributions

Revenue from public contributions is recognised when all the conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such item of property, plant and equipment are brought into use.

Where contributions have been received, but the conditions have not been met, a liability is recognised.

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.

Government grants

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria or conditions attached, where conditions have not been met, a liability is raised.

Government grants that are received as compensation for expenses or losses incurred or for the purpose of giving immediate financial support with no future related costs are recognised in the statement of financial performance in the year in which they have been received.

Interest earned on investment is treated in accordance with the grant conditions. If it is payable to the founder it is recorded as part of the creditor, and if it is the municipality's interest it is recognised as interest earned in the statement of financial performance in the period in which it is received.

Government grants are recognised as revenue when:

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

Other grants and donations

The municipality transfers money to individuals or organisations and other sectors of government from time to time, when making these transfers the municipality does not:

- receive goods and services in return as would be expected in a purchase or sale transaction;
- expect to be repaid in future; and
- expect a financial return as would be expected from investment.

These transfers are recognised in the statement of financial performance in the period that the events giving rise to the transfer occurred.

1.21 Investment income

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

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.22 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.

1.23 Accounting by principals and agents

Identification

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

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

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Assessing which entity benefits from the transactions with third parties

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

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

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

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

Recognition

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

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

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.23 Accounting by principals and agents (continued)

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

1.24 Comparative figures

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

1.25 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.26 Fruitless and wasteful expenditure

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

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

Unauthorised expenditure is accounted for as an expense in the statement of financial performance. If the expenditure is not certified as irrecoverable by the council, it is treated as an asset until it is recovered or written off as irrecoverable.

If the expenditure is not subsequently certified as irrecoverable by the council, it is treated as an asset until it is recovered or written off as irrecoverable.

1.27 Irregular expenditure

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

Irregular expenditure excludes unauthorised expenditure.

Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

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

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

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.27 Irregular expenditure (continued)

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.

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

1.28 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.

Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

1.29 Budget information

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

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

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

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

The 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.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.30 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.

1.31 Events after reporting date

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

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

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

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

1.32 Change in accounting policy, estimates and errors

Change in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 - Accounting policies, changes in accounting estimate and errors, requirements except to the extent that it is impracticable to determine the period-specific effects or the accumulative effect of the change in policy. In such cases the municipality shall restate the opening balance of assets and liabilities and net asset for the earliest period for which retrospective restatement is practicable.

Details for the change in accounting policy are disclosed in the notes to the financial statements where applicable. Change in accounting estimate are applied prospectively in accordance with GRAP 3 requirements. Details of change in estimates are disclosed in the notes to the annual financial statements where applicable.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.32 Change in accounting policy, estimates and errors (continued)

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 except to the extent that it is impracticable to determine the period specific effects or the cumulative affect of the error. In such cases the municipality shall restate the opening balances of assets and liabilities and net assets for the earliest period for which retrospective treatment is practicable. Details for the prior period errors are disclosed in the note to the financial statements where applicable.

1.33 Contingent assets and liabilities

The municipality does not recognised contingent liabilities or contingent assets, but discloses them. A contingent liability is a possible outflow of resources embodying economic benefits or service potential that is subject to a future event.

A contingent asset is where an inflow of economic benefit is probable. Contingent assest and contingent liabilities are disclosed in note 38.

1.34 Value added tax (VAT)

Output VAT is levield on taxable supplies in terms of the Value Added Tax Act.

Input VAT is claimed on those supplies allowed in terms of the Value Added Tax Act.

Where input VAT exceeds output VAT the Municipality recognises a receivable for VAT. Where output VAT exceeds input VAT the Municipality would a recognise a payable for VAT.

The Municipality accounts for VAT on a payments basis.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

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 01 July 2021 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">GRAP 104 (amended): Financial Instruments	01 April 2009	Unlikely there will be a material impact
<ul style="list-style-type: none">Directive 14: The application of Standards of GRAP by Public Entities that apply IFRS® Standards	01 April 2021	Unlikely there will be a material impact
<ul style="list-style-type: none">Guideline: Guideline on Accounting for Landfill Sites	01 April 2009	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 110 (as amended 2016): Living and Non-living Resources	01 April 2021	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 32: Service Concession Arrangements: Grantor	01 April 2021	Unlikely there will be a material impact
<ul style="list-style-type: none">IGRAP 17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset	01 April 2021	Unlikely there will be a material impact

2.2 Standards and interpretations issued and effective

The municipality has applied the following standards and interpretations, which have been published and are mandatory:

Standard/ Interpretation:
<ul style="list-style-type: none">GRAP 1 (amended): Presentation of Financial StatementsGRAP 2: Cash flow statementsGRAP 3: Accounting Policies, Changes in Accounting Estimates and ErrorsGRAP 9: Revenue from Exchange TransactionsGRAP 13 : LeasesGRAP 14: Events After the Reporting DateGRAP 19 : Provisions, Contingent Liabilities and Contingent AssetsGRAP 20: Related Party DisclosuresGRAP 23: Revenue from Non-exchange Transactions (Taxes and Transfers)GRAP 24: Presentation of Budget Information in Financial StatementsGRAP 25: Employee BenefitsGRAP 27: AgricultureGRAP 104: Financial InstrumentsDirective 5: Determining the GRAP Reporting FrameworkIGRAP 1 (revised): Applying the Probability Test on Initial Recognition of RevenueIGRAP 2: Changes in Existing Decommissioning, Restoration and Similar LiabilitiesIGRAP 3: Determining Whether an Arrangement Contains a LeaseGuideline: Accounting for Arrangements Undertaken i.t.o the National Housing ProgrammeGRAP 110 (as amended 2016): Living and Non-living ResourcesGRAP 109: Accounting by Principals and AgentsGRAP 108: Statutory Receivables

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

2. New standards and interpretations (continued)

- GRAP 21 (as amended 2016): Impairment of non-cashgenerating assets
- Directive 7 (revised): The Application of Deemed Cost
- GRAP 6 (as revised 2010): Consolidated and Separate Financial Statements
- IGRAP 18: Interpretation of the Standard of GRAP on Recognition and Derecognition of Land
- IGRAP 19: Liabilities to Pay Levies
- GRAP 16 (as amended 2016): Investment Property
- GRAP 17 (as amended 2016): Property, Plant and Equipment
- GRAP 26 (as amended 2016): Impairment of cashgenerating assets
- GRAP 103 (as amended 2016): Heritage Assets
- GRAP 18 (as amended 2016): Segment Reporting
- IGRAP 20: Accounting for Adjustments to Revenue
- GRAP 34: Separate Financial Statements

3. Inventories

Electricity	196 251	291 318
Rates and general	33 446	69 137
	229 697	360 455

3.1 Non - Financial information

Electricity inventories recognised as an expense during the year	95 067	74 341
Rates and general inventories recognised as an expense during the year	35 691	29 790
Electrical cables stolen - April/May 2020 - Council resolution for write off November 2020	-	849 077
	130 758	953 208

Included in the inventory balances above are the following types of inventory:

Electricity

Electrical sockets, transformers, plugs, meter boxes and othe smaller items.

Rates and general

Cleaning materials, staff refreshments (coffee, tea, milk, etc.) stationery, fuel and other smaller items.

Inventory pledged as security

None of the inventory was pledged as security during the period.

4. Consumer debtors and other debtors

Gross balances

Consumer Debtors - Electricity	25 170 464	24 051 640
Consumer Debtors - Refuse	35 704 826	24 429 455
Consumer Debtors - Sundry debtors	3 278 745	3 037 043
Other Debtors	538 133	489 693
Consumer Debtors - Impairment of exchange debtors	(58 259 653)	(44 883 373)
	6 432 515	7 124 458

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

4. Consumer debtors and other debtors (continued)

Credit quality of consumer debtors

The credit quality of consumer debtors that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R 3 517 766 (2020: R 3 724 787) were past due but not impaired.

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

1 month past due	1 274 416	1 317 321
2 months past due	835 606	1 272 374
3 months past due	1 407 745	1 135 092

Consumer debtors impaired

As of 30 June 2021, consumer debtors of R64 692 168 (2020: R52 007 831) were impaired and provided for.

The amount of the provision was R58 259 653 as of 30 June 2021 (2020: R44 883 373).

The ageing of these loans is as follows:

Reconciliation of allowance for impairment of consumer debtors

Opening balance	44 883 373	26 808 353
Provision for impairment	13 376 280	18 075 020
	<u>58 259 653</u>	<u>44 883 373</u>

5. Receivables from non-exchange transactions

Consumer debtors - Rates	58 500 600	46 324 120
Consumer debtors - Impairment non-exchange debtors	(48 482 427)	(35 373 661)
	<u>10 018 173</u>	<u>10 950 459</u>

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

5. Receivables from non-exchange transactions (continued)

Statutory receivables - Property rates

Included in Receivables from non-exchange transactions are statutory receivables of R 58 500 600 (2020: R46 324 120).

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. Property Rates arise from the MUNICIPAL PROPERTY RATES ACT NO. 6 OF 2004 as amended by Municipal Property Rates Amendment Act, No. 29 of 2014. This should be read together with Government Gazette 32061, updated by Government Gazette 38259 dated 28 November 2014. Statutory receivables transaction amounts is determined via the municipalities approved rates policy.

Impairment of Statutory receivables are assessed based on indicators that exist at each reporting date. These include but not limited to payment history and the customers overall profile.

Reconciliation of provision for impairment for statutory receivables

Consumer debtors - Rates	58 500 600	46 324 120
Impairment	(48 482 427)	(35 373 661)
	<u>10 018 173</u>	<u>10 950 459</u>

Credit quality of statutory receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates:

Statutory receivables from non-exchange transactions past due but not impaired

Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R1 202 334 (2020: R 2 304 137) were past due but not impaired.

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

1 month past due	421 463	797 996
2 months past due	308 186	762 694
3 months past due	472 685	743 447

Statutory receivables from non-exchange transactions impaired

As of 30 June 2021, other receivables from non-exchange transactions of R58 500 600 (2020: R46 324 120) were impaired and provided for.

The amount of the provision was R48 482 427 as of 30 June 2021 (2020: R35 373 661).

The ageing of these loans is as follows:

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

Opening balance	35 373 661	20 805 123
Provision for impairment	13 108 766	14 568 538
	<u>48 482 427</u>	<u>35 373 661</u>

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

6. Cash and cash equivalents (continued)

Cash on hand	538 741	502 756
Bank balances	(71 201)	82 635
Investments	12 958 936	46 345 849
	13 426 476	46 931 240

Cash and cash equivalents guarantees

Guarantee for Department of Minerals and Energy	73 700	73 700
Guarantee for Eskom	4 848 000	4 848 000

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
Cash on hand	-	-	-	538 741	502 756	(2 365)
First National Bank Cheque Account (Primary Bank Account): 53813535227	(78 402)	67 566	2 357 026	(71 201)	82 635	1 782 718
First National Bank Current Account: 62116156987	-	-	-	-	-	18 341
First National Bank Current Account: 62135193770	7 382 705	32 419 404	3 179 688	7 382 705	32 419 404	3 179 688
First National Bank Account: 62063171351	48	(2 012)	1 447	48	(8 937)	1 447
First National Bank Account: 61381739619	45 747	1 076 697	1 108	45 747	1 076 697	1 108
First National Bank Account: 74568809858	5 364 781	5 503 314	5 103 072	5 364 781	5 503 314	5 103 072
First National Bank Account: 62774381942	33 573	684 741	1 681	33 573	684 741	1 681
First National Bank Account: 62774381009	1 103	2 352	2 240	1 103	2 352	2 240
First National Bank Account: 62774381413	17 124	16 705	15 770	17 124	16 705	15 770
First National Bank Account: 62774382445	2 116	1 102	1 050	2 116	1 102	1 050
First National Bank Account: 62774382966	102 099	6 642 267	2 163	102 099	6 645 267	2 163
First National Bank Account: 62774383592	9 640	1 476	8 037	9 640	1 476	8 037
Total	12 880 534	46 413 612	10 673 282	13 426 476	46 927 512	10 114 950

7. VAT receivable

VAT	2 535 476	119 200
-----	-----------	---------

8. Long-term receivables

Cost of HT Lines	346 551	346 551
------------------	---------	---------

The cost of HT Lines comprise trade debtors and interest is charged at 6% per annum.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

9. Biological assets that form part of an agricultural activity

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Trees in a plantation forest	4 060 087	-	4 060 087	3 420 800	-	3 420 800

Reconciliation of biological assets that form part of an agricultural activity - 2021

	Opening balance	Disposals	Gains or losses arising from changes in fair value	Total
Trees in a plantation forest	3 420 800	(163 545)	802 832	4 060 087

Reconciliation of biological assets that form part of an agricultural activity - 2020

	Opening balance	Disposals	Total
Trees in a plantation forest	3 620 874	(200 074)	3 420 800

Non-financial information

Immature biological assets

Trees in a plantation forest	199 107	199 107
------------------------------	---------	---------

Pledged as security

None of the biological assets are pledged as security.

Revaluation

The biological assets were revalued by Mr Martin Engelbrecht, an independent Forest Economist as at 30 June 2021. The Faustmann valuation technique was applied for the valuation of biological assets.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

10. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	28 014 551	(16 204 528)	11 810 023	29 229 916	(15 627 655)	13 602 261

Reconciliation of investment property - 2021

	Opening balance	Impairments	Depreciation	Total
Investment property	13 602 261	(1 215 365)	(576 873)	11 810 023

Reconciliation of investment property - 2020

	Opening balance	Depreciation	Total
Investment property	15 720 569	(2 118 308)	13 602 261

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. The municipality has developed a comprehensive asset register encompassing movable assets, land, buildings and infrastructure assets.

The investment property includes land registered under the name of the municipality and Mlungisi Mall.

The Mlungisi Mall components are the only assets within the investment properties which are depreciated.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

11. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	6 933 932	-	6 933 932	6 933 932	-	6 933 932
Buildings	63 467 472	(30 649 686)	32 817 786	60 207 754	(28 301 121)	31 906 633
Machinery and equipment	5 577 844	(4 034 856)	1 542 988	5 400 877	(3 865 563)	1 535 314
Furniture and office equipment	1 737 661	(1 623 839)	113 822	1 729 861	(1 550 551)	179 310
Transport assets	30 050 357	(20 569 251)	9 481 106	27 713 139	(18 801 026)	8 912 113
Computer equipment	2 444 878	(2 006 731)	438 147	2 268 736	(1 830 663)	438 073
Roads	369 109 133	(152 422 623)	216 686 510	354 555 371	(136 906 757)	217 648 614
Electricity	44 126 528	(15 912 562)	28 213 966	44 636 016	(14 896 509)	29 739 507
Work in progress	85 698 419	(1 062 819)	84 635 600	57 032 531	(1 062 819)	55 969 712
Office Equipment - Leased Asset	312 227	(312 227)	-	312 227	(312 227)	-
Cemeteries	1 256 961	(819 401)	437 560	1 256 961	(791 044)	465 917
Airports	1 127 000	(827 805)	299 195	1 127 000	(804 735)	322 265
Landfill sites	10 930 052	(3 035 422)	7 894 630	8 351 371	(2 633 942)	5 717 429
Total	622 772 464	(233 277 222)	389 495 242	571 525 776	(211 756 957)	359 768 819

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals / Derecognitions	Transfers	Depreciation	Total
Land	6 933 932	-	-	-	-	6 933 932
Buildings	31 906 633	2 727 084	(90 847)	693 005	(2 418 089)	32 817 786
Machinery and equipment	1 535 314	321 930	-	-	(314 256)	1 542 988
Furniture and office equipment	179 310	7 800	-	-	(73 288)	113 822
Transport assets	8 912 113	2 288 589	-	-	(1 719 596)	9 481 106
Computer equipment	438 073	176 141	-	-	(176 067)	438 147
Roads	217 648 614	9 100 155	(566 152)	7 626 287	(17 122 394)	216 686 510
Electricity	29 739 507	575 990	(841 269)	-	(1 260 262)	28 213 966
Work in Progress	55 969 712	36 985 180	-	(8 319 292)	-	84 635 600
Cemeteries	465 917	-	-	-	(28 357)	437 560
Airports	322 265	-	-	-	(23 070)	299 195
Landfill sites	5 717 429	2 578 681	-	-	(401 480)	7 894 630
	359 768 819	54 761 550	(1 498 268)	-	(23 536 859)	389 495 242

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals	Depreciation	Total
Land	6 933 932	-	-	-	6 933 932
Buildings	34 658 908	-	(397 984)	(2 354 291)	31 906 633
Machinery and equipment	1 940 237	35 281	(63 825)	(376 379)	1 535 314
Furniture and office equipment	249 838	16 994	(20 350)	(67 172)	179 310
Transport assets	11 015 032	83 034	(479 564)	(1 706 389)	8 912 113
Computer equipment	499 717	188 362	(50 751)	(199 255)	438 073
Roads	236 165 067	282 717	(883 317)	(17 915 853)	217 648 614
Electricity	32 217 152	-	(1 272 739)	(1 204 906)	29 739 507
Work in progress	44 703 308	11 301 558	(35 154)	-	55 969 712
Office Equipemnt - Leased Asset	22 387	-	(22 387)	-	-
Cemeteries	494 398	-	-	(28 481)	465 917
Airports	346 124	-	-	(23 859)	322 265
Landfill sites	6 098 195	-	(2)	(380 764)	5 717 429
	375 344 295	11 907 946	(3 226 073)	(24 257 349)	359 768 819

Pledged as security

Carrying value of assets pledged as security:

Office equipment - Leased Assets - 134 351

Derecognitions

During 2021 assets with a carrying value of R1 498 268 were derecognised as they no longer meet the definition of an asset.

Reconciliation of Work-in-Progress 2021

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	40 455 548	5 397 981	10 116 183	55 969 712
Additions/capital expenditure	36 985 180	-	-	36 985 180
Transferred to completed items	(7 626 287)	-	(693 005)	(8 319 292)
	69 814 441	5 397 981	9 423 178	84 635 600

Reconciliation of Work-in-Progress 2020

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	29 189 144	5 397 981	10 116 183	44 703 308
Additions/capital expenditure	11 301 558	-	-	11 301 558
Impairments	(35 154)	-	-	(35 154)
	40 455 548	5 397 981	10 116 183	55 969 712

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.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

12. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 921 435	(1 734 397)	187 038	1 921 435	(1 493 244)	428 191

Reconciliation of intangible assets - 2021

	Opening balance	Amortisation	Total
Computer software	428 191	(241 153)	187 038

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Amortisation	Total
Computer software	675 658	24 300	(271 767)	428 191

Pledged as security

None of the intangible assets pledged as security.

13. Heritage assets

	2021			2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical monuments	610 183	-	610 183	610 183	-	610 183

Reconciliation of heritage assets 2021

	Opening balance	Total
Historical monuments	610 183	610 183

Reconciliation of heritage assets 2020

	Opening balance	Total
Historical monuments	610 183	610 183

Pledged as security

No heritage assets are pledged as security:

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
14. Finance lease obligation		
Minimum lease payments due		
- within one year	16 509	199 019
- in second to fifth year inclusive	-	16 509
	<u>16 509</u>	<u>215 528</u>
less: future finance charges	(265)	(22 665)
Present value of minimum lease payments	<u>16 244</u>	<u>192 863</u>
Present value of minimum lease payments due		
- within one year	16 244	176 620
- in second to fifth year inclusive	-	16 243
	<u>16 244</u>	<u>192 863</u>
Non-current liabilities	-	16 244
Current liabilities	16 244	176 620
	<u>16 244</u>	<u>192 864</u>

The finance lease obligation is made up of numerous rental agreements for the office equipment.

Office Equipment Leases

The discount rate used in calculation the present value of the minimum lease payments is the implicit interest rate in the lease, if this is practicable to determine; if not, it is the prime interest rate. Due to the nature of the information provided the implicit rate for copiers could not be determined, as the cost of the copiers is not provided in the agreement. Any initial direct costs of leases are added to the amount recognised as an asset. Only the terms and payment amount are provided. The office equipment finance lease has an implicit interest rate ranging between 7.50% - 19% per annum, by taking into account the market values of the office equipment at initial recognition.

15. Payables from exchange transactions

Trade payables	78 965 209	64 534 117
Consumer debtors with credit balances	2 097 978	2 094 319
Other payables	22 236 645	21 729 193
Retention creditors	2 190 043	(5 706)
Agency fees payable	631 835	2 341 283
	<u>106 121 710</u>	<u>90 693 206</u>

Consumer receivables with net credit balances have been classified to Payables from exchange transactions.

16. Consumer deposits

Electricity	<u>1 838 186</u>	<u>1 799 583</u>
-------------	------------------	------------------

Consumer deposits are made of deposits from consumers from electricity connections. for those making use of conventional electricity.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
17. Employee benefit obligations		
Defined benefit plan		
The defined benefit plan consists of the Prost Retirement Medical Aid and the Long Service Bonus.		
Post retirement medical aid plan		
The municipality operates six accredited medical aid schemes, namely:		
Bestmed		
Bonitas		
Discovery La Health		
Hosmed		
Keyhealth		
Samwu		
Pensioners continue on the option they belonged to on the day of retirement.		
The independent valuers, Arch Actuaries carried out a statutory valuation on 30 June 2021 (30 June 2020 Arch Actuaries).		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	25 981 000	27 804 637
Present value of the defined benefit obligation-partly or wholly funded	888 000	1 096 544
Interest costs	2 617 000	2 571 649
Net actuarial gains	1 690 627	(4 351 866)
Benefits paid	(1 149 627)	(1 139 964)
	30 027 000	25 981 000
Non-current liabilities	28 886 000	24 755 000
Current liabilities	1 141 000	1 226 000
	30 027 000	25 981 000
Key assumptions used		
Assumptions used at the reporting date:		
Discount rates used	10.12 %	10.31 %
Expected rate of return on assets	3.12 %	3.69 %
Medical cost trend rates	6.79 %	6.38 %
Other assumptions		
Pre retirement age	SA 85-90 L	SA 85-90 L
Post retirement age	PA (90)-1	PA (90)-1
Normal retirement age	62 years	62 years
Spouse age differences (male older female)	3 years	3 years
AIDS	No assumptions made	No assumptions made
Membership data		
Female members	80	78
Male members	72	69

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

17. Employee benefit obligations (continued)

			1% decrease	Base (6,38%)	1% increase
Defined benefit obligation	-	-	(27 001)	(30 027)	(34 129)
Service cost (next financial year)	-	-	(722)	(888)	(1 104)
Interest cost (next financial year)	-	-	(2 304)	(2 617)	(2 998)

Long Service Awards

The Long service bonus for the portion of the next interval already rendered by the employee. The employee receives a leave pay and percentage of salary amount for reaching certain interval (5 years, 10 years, 15 years etc.). This provision is accrued in terms of the collective bargain agreement. The Long service bonus plans are defined benefit plans. As at period ended 30 June 2021 289, (2020: 315) employees were eligible for Long service bonus.

Carrying value

Present value of the defined benefit obligation	7 628 000	7 134 236
Service costs	925 000	996 426
Interest costs	509 000	540 550
Net actuarial gains	(7 261)	(223 566)
Benefits paid	(857 739)	(819 646)
	8 197 000	7 628 000
Non-current liabilities	6 963 000	6 666 000
Current liabilities	1 234 000	962 000
	8 197 000	7 628 000

Key assumptions used

Assumptions used at the reporting date:

Discount rates used	9.06 %	7.12 %
Net discount rates used	3.12 %	3.16 %
Salary inflation	5.76 %	3.84 %

Other assumptions

Normal retirement age	62 years	62 years
Number of trading days per year	252	252

Membership data

Female members	100	104
Male members	189	198

Short term employee benefits obligations

Provision for bonus

A bonus provision is raised for the amount which the Municipality is obligated to pay employees

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
17. Employee benefit obligations (continued)		
Provision for bonuses		
Opening balance	3 758 528	3 643 026
Service bonus	4 120 374	3 758 528
Utilised during the year	(3 758 528)	(3 643 026)
	4 120 374	3 758 528

Accrual for leave gratuity

Leave gratuity is raised for the amount which the Municipality is obligated to pay employees in lieu of annual leave, if they are to leave the Municipality

Accrual for leave gratuity

Opening balance	11 198 069	11 120 667
Leave gratuity - obligation	5 741 369	7 366 413
Utilised during the year	(6 735 698)	(7 289 011)
	10 203 740	11 198 069

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

Carrying value

Non-current portion of Post Retirement Benefits	(28 886 000)	(24 755 000)
Non-current portion of Long Service Awards	(6 963 000)	(6 666 000)
Current portion of Post Retirement Benefits	(1 141 000)	(1 226 000)
Current portion of Long Service Awards	(1 234 000)	(962 000)
Provision for bonus	(4 120 374)	(3 758 528)
Accrual for leave gratuity	(10 203 740)	(11 198 069)
	(52 548 114)	(48 565 597)

Non-current liabilities	(35 849 000)	(31 421 000)
Current liabilities	(16 699 114)	(17 144 597)
	(52 548 114)	(48 565 597)

Net expense recognised in the statement of financial performance

Current service cost	1 813 000	2 092 970
Interest cost	3 126 000	3 112 199
Actuarial (gains) losses	1 683 366	(4 575 432)
	6 622 366	629 737

Other assumptions

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

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

	2021	2020	2019	2018	2017
Post Retirement Benefits	30 027 000	25 981 000	27 804 355	29 374 981	32 424 718
Long Service Awards	8 197 000	7 628 000	7 134 236	5 608 531	5 774 000

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

WCG	-	233 712
Waste Collection Grant	-	6 633 000
Recycling Center	-	122 310
Disaster Relief Grant	133 506	278 257
MIG Funding	-	29 895 677
Staff training	772 807	556 690
Extended Public Works Programme	-	347 826
	906 313	38 067 472

Movement during the year

Balance at the beginning of the year	38 067 472	4 400 590
Surrendered to NRF/Roll over not approved	(10 175 000)	(529 000)
Grants received during the year	163 887 116	52 268 972
Income recognition during the year	(190 873 275)	(18 073 090)
	906 313	38 067 472

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

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

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

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

19. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Increased during the year	Total
Provision for landfill sites	4 645 373	2 820 856	7 466 229

Reconciliation of provisions - 2020

	Opening Balance	Increased during the year	Total
Provision for landfill sites	4 403 197	242 176	4 645 373
Non-current liabilities		7 048 501	4 503 148
Current liabilities		417 728	142 225
		7 466 229	4 645 373

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

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

19. Provisions (continued)

Provision for Landfill rehabilitation

The municipality has an obligation to restore three landfill sites situated in Stutterheim, ERF 80, Cathcart, Erf 474 and Keiskammahoek, Erf 1. The Stutterheim and Keiskammahoek sites are currently licenced and used for general waste disposal (nonhazardous) purposes. The Cathcart site was previously licenced and the permit expired in 2013. The municipality has approached the Department of Environmental Affairs (DEA) with the view of obtaining assistance to renew the licence for the site.

An environmental specialist was appointed to assist the municipality with the management of the landfill sites. The environmental specialist has undertaken site visits and prepared preliminary designs and costing of works to be completed.

Where appropriate a discounting rate of 9.64% was used.

The remaining site life:

- Cathcart landfill site is approximately +/-2 years
- Stutterheim landfill site is approximately +/- 8 years
- Keiskammahoek landfill site is approximately +/-32 years

20. Service charges

Sale of electricity	37 353 269	26 368 381
Refuse removal	12 115 099	12 052 087
Other service charges	114 138	76 400
	49 582 506	38 496 868

21. Investment revenue - investments

Interest revenue

Bank	1 001 492	1 434 498
------	-----------	-----------

Interest is earned on municipal investments and municipal cheque account in note 6.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
22. Property rates		
Rates received		
Property rates	22 151 666	23 740 111
Less: Rebates	(1 355 398)	(4 746 972)
	20 796 268	18 993 139
Valuations		
Residential	1 159 618 500	1 361 185 877
Commercial	225 211 255	187 860 986
State	752 576 208	246 981 500
Municipal	357 463 601	29 704 332
Small holdings and farms	2 462 899 299	1 077 198 612
Public benefit organisations	101 280 903	73 402 300
Vacant land	-	1 973 000
Properties used for multi purposes (Mix)	5 165 000	-
Industrial properties	42 887 501	-
	5 107 102 267	2 978 306 607

Valuations on land and buildings are performed every 4 years. 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 an monthly basis as per the approved tariffs with interest at prime plus 1% per annum is levied on rates outstanding monthly.

23. Government grants and subsidies

Operating grants

Equitable share	131 642 000	105 863 000
Library grant	1 200 000	1 200 000
Municipal Infrastructure Grant (MIG)	47 697 503	13 432 997
Expanded Public Works Programme (EPWP)	1 000 000	887 350
Financial Management Grant (FMG)	2 200 000	2 235 000
Waste Grant	6 989 022	-
Disaster Relief Grant	144 751	317 743
	190 873 276	123 936 090

Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

Operating and maintenance cost of municipalities..

Waste site grant

Balance unspent at beginning of year	233 712	233 712
Conditions met - transferred to revenue	(233 712)	-
	-	233 712

Conditions still to be met - remain liabilities (see note 18).

To improve waste site management and ensure clean environment.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
23. Government grants and subsidies (continued)		
Financial management grant (FMG)		
Current-year receipts	2 200 000	2 235 000
Conditions met - transferred to revenue	(2 200 000)	(2 235 000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18).		
The grant is received to ensure sound and sustainable management of the fiscal and financial affairs of the municipality. To promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Act.		
Waste Collection Grant		
Balance unspent at beginning of year	6 633 000	6 633 000
Conditions met - transferred to revenue	(6 633 000)	-
	<u>-</u>	<u>6 633 000</u>
Conditions still to be met - remain liabilities (see note 18).		
The grant is made to assist the municipality in promotion of clean environment.		
Recycling centre		
Balance unspent at beginning of year	122 310	122 310
Conditions met - transferred to revenue	(122 310)	-
	<u>-</u>	<u>122 310</u>
Conditions still to be met - remain liabilities (see note 18).		
The grant is made to assist the municipality in promotion of clean environment.		
Library Grant		
Current-year receipts	1 200 000	1 200 000
Conditions met - transferred to revenue	(1 200 000)	(1 200 000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 18).		
To transform urban and rural community infrastructure, facilities and services through a recapitalised programme.		
Disaster relief grant		
Balance unspent at beginning of year	278 257	-
Current-year receipts	-	596 000
Conditions met - transferred to revenue	(144 751)	(317 743)
	<u>133 506</u>	<u>278 257</u>
Conditions still to be met - remain liabilities (see note 18).		

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
23. Government grants and subsidies (continued)		
Municipal infrastructure grant (MIG)		
Balance unspent at beginning of year	29 895 677	3 189 674
Surrendered to NRF/Roll over not Approved	(9 827 174)	-
Current-year receipts	27 629 000	40 139 000
Conditions met - transferred to revenue	(46 298 903)	(12 309 738)
Operating expenditure	(1 398 600)	(1 123 259)
	<u>-</u>	<u>29 895 677</u>

Conditions still to be met - remain liabilities (see note 18).

The Grant was received from the Department of Cooperative Governance and Traditional Affairs. The purpose of the grant is to provide specific finance for basic Municipal Infrastructure backlogs for poor households, micro enterprises and social institutions servicing poor communities.

Staff training

Balance unspent at beginning of year	556 690	326 718
Current-year receipts	216 117	229 972
	<u>772 807</u>	<u>556 690</u>

Conditions still to be met - remain liabilities (see note 18).

The grant was obtained from the Sectoral Education Training Authority (SETA) for training of staff. In terms of the Skills Development Act regarding monies by SETA's published in Government Notice 990 in Government Gazette No. 34940, LG SETA is required to disburse in quarterly intervals.

Extended public works programme (EPWP)

Balance unspent at beginning of year	347 826	528 176
Current-year receipts	1 000 000	1 236 000
Conditions met - transferred to revenue	(1 000 000)	(887 350)
Surrendered to NRF/Roll over not approved	(347 826)	(529 000)
	<u>-</u>	<u>347 826</u>

Conditions still to be met - remain liabilities (see note 18).

The grant is provided to expand the Public Works programme and job creation efforts. The municipality is incentivised to use labour intensive delivery methods in the following areas:

- Road maintenance and the maintenance of buildings;
- Parks beautification;
- Waste management;
- Low traffic volume roads and rural roads.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
24. Employee related costs		
Basic	85 944 555	84 192 301
Bonus	7 176 307	6 960 305
Medical aid - company contributions	6 579 486	6 155 797
UIF	527 434	552 122
Employee benefit movements	5 217 937	(466 833)
Travel, motor car, accommodation, subsistence and other allowances	1 456 406	1 752 665
Overtime payments	1 453 755	1 037 209
Acting allowances	761 859	383 157
Travel allowances	5 268 371	5 367 477
Housing benefits and allowances	2 976 180	3 136 500
Industrial Council Levy	35 618	35 351
Pension Fund Contributions by Council	15 328 292	14 893 583
	132 726 200	123 999 634
Remuneration of municipal manager		
Annual Remuneration	786 839	773 580
Car Allowance	322 524	322 524
Contributions to UIF, Medical and Pension Funds	199 270	183 657
Cellphone Allowance	24 000	24 000
	1 332 633	1 303 761
Remuneration of chief finance officer		
Annual Remuneration	854 144	807 972
Travelling Allowance	120 000	120 000
Contributions to UIF, Medical and Pension Funds	10 292	1 897
Cellphone Allowance	16 800	16 800
	1 001 236	946 669
Remuneration of Corporate Services Manager		
Annual Remuneration	-	591 466
Travel Allowance	-	94 090
Performance Bonuses	-	60 000
Contributions to UIF, Medical and Pension Funds	812	15 320
Cellphone Allowance	-	13 172
Leave	81 159	-
	81 971	774 048
Remuneration of Development and Planning Manager		
Annual Remuneration	852 138	811 738
Backpay	6 734	-
Contributions to UIF, Medical and Pension Funds	10 660	1 896
Other Allowance	16 800	16 800
	886 332	830 434

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
24. Employee related costs (continued)		
Remuneration of Infrastructure Director		
Annual Remuneration	-	556 139
Travel Allowance	-	93 181
Performance Bonuses	-	60 000
Contributions to UIF, Medical and Pension Funds	-	27 527
Cellphone Allowance	-	13 045
Acting Allowance	-	53 743
	<u>-</u>	<u>803 635</u>
Remuneration of Community Service Manager		
Annual Remuneration	317 227	760 271
Backpay	6 734	-
Contributions to UIF, Medical and Pension Funds	33 161	53 363
Cellphone Allowance	8 400	16 800
Leave	4 361	-
	<u>369 883</u>	<u>830 434</u>
25. Remuneration of councillors		
Mayor	296 277	840 313
Speaker	625 785	683 003
Councillors' salaries	7 603 257	7 094 938
Councillors' allowances	3 073 387	3 375 213
	<u>11 598 706</u>	<u>11 993 467</u>
Additional information		
The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.		
The Mayor and the Speaker each have the use of separate Council owned vehicles for official duties.		
26. Vending management fee		
Management fees - third party	<u>253 552</u>	<u>838 884</u>
The municipality pays vendor management fees to Contour, this service provider owns the system used to manage the sales of prepaid electricity to external outlets and the municipal office cashiers.		
27. Depreciation and amortisation		
Property, plant and equipment	23 536 859	24 257 349
Investment property	576 873	2 118 308
Intangible assets	241 153	271 766
	<u>24 354 885</u>	<u>26 647 423</u>

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
28. Impairment of assets		
Impairments		
Property, plant and equipment	1 215 365	-
On the 16th, 17th October 2018 and the subsequent days the community staged a protest which led to municipal buildings being torched and or looting of municipal assets both immovable (significant items at Mlungisi Commercial Park) and movable. This resulted to a drastic decline in the market value of the Mlungisi Commercial Park and write off and impairing of a significant number of municipal assets.		
29. Finance costs		
Interest expense	-	1 712 506
Service concession arrangements	3 801 999	954 822
	3 801 999	2 667 328
30. Debt impairment		
Debt impairment	26 485 045	32 643 558
31. Bulk purchases		
Electricity - Eskom	35 883 789	33 308 552
32. Contracted services		
Outsourced Services		
Burial Services	40 000	5 000
Catering Services	7 788	24 485
Cleaning Services	22 043	-
Fire Services	134 130	-
Litter Picking and Street Cleaning	101 336	3 450
Professional Staff	102 061	(4 105)
Security Services	374 364	248 006
Electrical	2 238 984	680 469
Consultants and Professional Services		
Business and Advisory	6 384 863	8 003 721
Legal Cost	1 297 478	1 162 406
Contractors		
Event Promoters	16 200	8 730
Graphic Designers	-	24 960
Maintenance of Buildings and Facilities	74 318	-
Maintenance of Equipment	37 750	5 930
Maintenance of Unspecified Assets	2 244 712	1 659 599
Safeguard and Security	194 084	197 098
	13 270 111	12 019 749

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
33. General expenses		
Advertising	233 132	136 518
Audit Fees	2 995 665	1 763 373
Bank charges	1 492 040	575 006
Consumables	294 773	439 787
Insurance	1 129 351	999 130
Fuel and oil	1 512 129	1 551 616
Postage and courier	2 580	59 850
Printing and stationery	339 505	616 231
Project maintenance costs	903 724	173 674
Vehicle license fees	446 616	327 116
Subscriptions and membership fees	1 303 632	1 342 890
Telephone and fax	5 633 455	1 962 448
Vehicle license fees	335 575	54 030
Electricity	385 995	(49 876)
Uniforms	1 229	169 193
Free basic electricity	25 455	4 317 327
Skills development levy	1 068 265	1 073 188
Other expenses	2 268 695	1 721 624
	20 371 816	17 233 125
34. Auditors' remuneration		
Auditors Remuneration	2 995 665	1 763 373
35. Cash generated from operating activities		
Surplus (deficit)	10 556 138	(35 867 922)
Adjustments for:		
Depreciation and amortisation	24 354 885	26 647 423
Loss/(Gain) on sale of assets and liabilities	1 661 813	4 075 155
Fair value adjustments	(802 832)	200 074
Impairment deficit	1 215 365	-
Debt impairment	26 485 045	32 643 558
Movements in retirement benefit assets and liabilities	3 982 517	(1 136 687)
Movements in provisions	2 820 856	242 176
Changes in working capital:		
Inventories	130 758	104 316
Consumer debtors	(25 793 102)	(26 107 618)
Other receivables from non-exchange transactions	932 286	510 994
Payables from exchange transactions	15 428 506	14 166 985
VAT	(2 416 276)	(208 912)
Unspent conditional grants and receipts	(37 161 159)	33 666 882
Consumer deposits	38 603	(15 533)
	21 433 403	48 920 891

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

36. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At amortised cost	Total
Consumer debtors and other debtors	6 432 515	6 432 515
Other receivables from non-exchange transactions	10 018 173	10 018 173
Cash and cash equivalents	13 426 476	13 426 476
Long-term receivables	346 551	346 551
	30 223 715	30 223 715

Financial liabilities

	At amortised cost	Total
Finance lease obligation	16 244	16 244
Payables from exchange transactions	106 121 712	106 121 712
Unspent conditional grants	906 313	906 313
Consumer deposits	1 838 186	1 838 186
	108 882 455	108 882 455

2020

Financial assets

	At amortised cost	Total
Consumer debtors and other debtors	7 124 458	7 124 458
Other receivables from non-exchange transactions	10 950 459	10 950 459
Cash and cash equivalents	46 931 240	46 931 240
Long-term receivables	346 551	346 551
	65 352 708	65 352 708

Financial liabilities

	At amortised cost	Total
Finance lease obligation	176 620	176 620
Payables from exchange transactions	90 693 206	90 693 206
Unspent conditional grants	38 067 472	38 067 472
Consumer deposits	1 799 583	1 799 583
	130 736 881	130 736 881

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

37. Commitments

Authorised capital expenditure

Already contracted for but not provided for

- | | | |
|---------------------------------|------------|------------|
| • Property, plant and equipment | 23 982 121 | 21 531 473 |
|---------------------------------|------------|------------|

Total capital commitments

- | | | |
|---|------------|------------|
| Already contracted for but not provided for | 23 982 121 | 21 531 473 |
|---|------------|------------|

This committed expenditure relates to property, plant and equipment and intangible assets will be financed by a combination of MIG and internally generated funds.

38. Contingencies

Contingent Liabilities

2021

The total contingent liabilities for the year 2021 are R7 075 151.67 and their details are as follows:

- Amahlathi / Iziquhamo Civil Construction: Termination of contract. The matter is at plea stage. Amount R2 304 760.77.
- Amahlathi / Konstruct SGN: Damages claim arising from contractual agreement. Matter awaiting discovery. Claimed amount R603 670.30.
- Amahlathi / Scholes CJ: Damages claim arising from contractual agreement. Currently awaiting revised instruction on offer of settlement. Claimed amount R1 034 857.32.
- Amahlathi / Voltex (Pty) Ltd: Payment of money owed in terms of cessionary agreement. Court order outstanding at year end. Claimed amount R1 204 194.43.
- A303 Themisa Dilika & 3 others / Amahlathi Local Municipality. Themisa Dilika and 3 others referred an unfair dismissal dispute to the SALGBC claiming that they had reasonable expectation that they would be permanently appointed. R700 000 for back-pay costs. The unfair dismissal dispute was dismissed. Dilika and 3 others have taken the arbitration award on Review in the Labour Court. The Review Application is pending.
- A325 Amahlathi / Tyekana Security and Cleaning Services: Tyekana Security and Cleaning Services has instituted action in the High Court against the municipality for alleged services rendered of R1 227 668.85 in respect of unpaid invoices.
- A326 Xolela Roji / Amahlathi: Roji brought an application in the High Court that he be declared elected top of the ANC party list for the filling of a vacancy on the municipal council, that he be declared as councillor elect and that he be paid a councillors' remuneration.
- A253 Amahlathi / Various Employees: The municipality has brought an application in the High Court to challenge the implementation of the standardization policy.

2020

- Amahlathi / Sikhulu-Nqwena Ivy. Legal fees to date are R45 080.
- Amahlathi / Opinion on contracts. Legal fees to date are R183 022.50.
- Amahlathi / Phambili Prop - Termination of lease . The legal fees of the matter to date are R33 327.22.
- Amahlathi / Konstruction SGN.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

38. Contingencies (continued)

- A262 XL Aloe Travel / Amahlathi Local Municipality. XL Aloe Travel referred a dispute to the Arbitration Foundation of South Africa claiming a sum of R244 452.36 for damages caused to one of its vehicles by one of the municipality's employees.
- A302 IMATU obo T Busakwe / Amahlathi Local Municipality. IMATU referred an unfair dismissal dispute to the SALGBC on behalf of T Busakwe, claiming that she had a reasonable expectation that her fixed-term contract of employment would be renewed. R200 000 for back-pay costs.
- A303 Themisa Dilika & 3 others / Amahlathi Local Municipality. Themisa Dilika and 3 others referred an unfair dismissal dispute to the SALGBC claiming that they had reasonable expectation that they would be permanently appointed. R700 000 for back-pay costs.
- A309 Madoda Zamkana / Amahlathi Local Municipality. Madoda Zamkana instituted legal proceedings against the municipality R7 300.38 for damages and R2 000 for legal fees, damages caused to his septic tank by a person who drove a vehicle into his yard.
- A301 Nomabali Tom / Amahlathi Local Municipality. Ms Tom referred an unfair labour practice dispute to the SALGBC claiming total remuneration package upper limit: Mid-point equal to R929 869 per annum, alternatively to be placed on task grade 19 equal to R850 668 per annum and legal fees of R199 630.80.
- A317 S Malawu / MEC for COGTA and Amahlathi Local Municipality. Mr Malawu brought an application in the High Court to review and set aside the MEC's decision to remove Mr Malawu as a councilor. R81 127.25 legal fees.

Contingent assets

2021

There is a civil claim against Kwane Capital and Mcebisi Mlonzi R92 481 183 and the estimated legal costs are R1 500 000.

2020

There is a civil claim against Kwane Capital and Mcebisi Mlonzi R92 481 183 and the estimated legal costs are R1 500 000.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

39. Related parties

Relationships

Accounting Officer

Councillors

Members of key management

Refer to accounting officer's report

Refer to general information page

I Sikhulu-Nqwena - Municipal Manager

L Manjingolo - Chief Financial Officer

P Dibela - Director Community Services

M Makunga - Director Planning and Development

Related party balances

Companies owned by people/spouses/partners/associates in the service of the state

ICT Choice

1 068 823

271 264

Ebusha General Trading

143 900

154 790

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

39. Related parties (continued)

Remuneration of management

Management class: Councillors

2021

Name	Councillors salaries	Telephone allowance	Travel allowance	3G card	Subsistence	Total
A Hobo (Mayor)	596 935	40 800	198 978	3 600	-	840 313
M Mjikelo (Speaker)	477 548	40 800	159 183	3 600	-	681 131
N Pose (Exco)	537 531	40 800	59 405	3 600	-	641 336
NP Mlahleki (Exco)	436 509	40 800	144 876	3 600	-	625 785
N Monti (Exco)	524 395	40 800	72 541	3 600	-	641 336
T Balindlela (Exco)	254 476	40 800	78 542	3 600	-	377 418
NA Kato-Manyika (Exco)	520 700	40 800	76 236	3 600	-	641 336
N Ngxakangxaka	192 472	40 800	59 405	3 600	-	296 277
NP Tikazayo	192 472	40 800	59 405	3 600	-	296 277
P Ntwanambi	52 652	11 127	16 363	982	-	81 124
P Qaba	179 336	40 800	72 541	3 600	-	296 277
AT Daka	80 784	6 000	3 600	-	2 400	92 784
DS Gxekwa	192 472	40 800	59 405	3 600	-	296 277
EX Zakhe	113 424	6 000	3 600	-	2 400	125 424
GD Mxosa	192 472	40 800	59 405	3 600	-	296 277
GP Noxeke	192 472	40 800	59 405	3 600	-	296 277
K Sandile	111 792	6 000	3 600	-	2 400	123 792
M Nqini	192 472	40 800	59 405	3 600	-	296 277
MN Ngcofe	192 472	40 800	59 405	3 600	-	296 277
NS Mdledle	86 496	6 000	3 600	-	2 400	98 496
RB Pickering	192 472	40 800	59 405	3 600	-	296 277
SG Venkile	83 975	17 773	26 011	1 568	-	129 327
TR Desi	192 472	40 800	59 405	3 600	-	296 277
VW Tshaka	192 472	40 800	59 405	3 600	-	296 277
X Mngxaso	179 336	40 800	72 541	3 600	-	296 277
X Nqata	242 431	40 800	80 811	3 600	-	367 642

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

39. Related parties (continued)

XM Tokwe	192 472	40 800	59 405	3 600	-	296 277
Z Ngudle	79 968	6 000	3 600	-	2 400	91 968
CT Ngxingolo	192 472	40 800	59 405	3 600	-	296 277
N Busika	93 962	21 327	37 701	1 888	-	154 878
NA Nkonya-Mtati	192 472	40 800	59 405	3 600	-	296 277
NC Nongqayi	179 336	40 800	72 541	3 600	-	296 277
NG Mekuto	101 184	6 000	3 600	-	2 400	113 184
NZ Klaas	191 581	40 800	60 296	3 600	-	296 277
NM Mbulawa	138 029	29 673	46 009	2 618	-	216 329
N Ncevu	118 783	25 191	36 732	2 223	-	182 929
NC Mkiva	118 783	25 191	36 732	2 223	-	182 929
B Xongwana	74 715	15 764	24 032	1 391	-	115 902
SC Matini	21 860	3 482	5 373	307	-	31 022
X Roji	3 578	773	1 193	68	-	5 612
	8 102 235	1 206 301	2 172 502	103 268	14 400	11 598 706

2020

Name	Councillors salaries	Telephone allowance	Travel allowance	3G card	Backpay	Subsistence	Total
A Hobo (Mayor)	596 935	40 800	198 978	3 600	-	-	840 313
M Mjikelo (Speaker)	477 548	42 672	159 183	3 600	-	-	683 003
N Pose (Exco)	537 531	43 556	59 405	3 600	28 755	-	672 847
NP Mlahleki (Exco)	250 701	52 478	72 541	3 600	5 947	-	385 267
D Mzili (Exco)	298 468	42 590	99 489	2 400	-	-	442 947
N Monti (Exco)	524 395	54 318	72 541	3 600	28 755	-	683 609
T Balindlela (Exco)	254 476	40 800	78 542	3 600	-	-	377 418
NA Kato-Manyika (Exco)	520 700	43 032	76 236	3 600	22 808	-	666 376
N Ngxakangxaka	192 472	47 538	59 405	3 600	-	-	303 015
NP Tikazayo	192 472	53 625	59 405	3 600	-	-	309 102
P Ntwanambi	192 472	44 515	59 405	3 600	-	244	300 236
P Qaba	179 336	58 338	72 541	3 600	-	-	313 815
AT Daka	66 912	9 300	3 600	-	-	2 400	82 212
DS Gxekwa	192 472	44 100	59 405	3 600	-	244	299 821

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

39. Related parties (continued)

EN Brukwe	16 039	12 958	4 950	300	-	-	34 247
EX Zakhe	126 722	6 000	3 600	-	-	2 400	138 722
GD Mxosa	192 472	52 065	59 405	3 600	-	-	307 542
GP Noxeke	192 742	44 100	59 405	3 600	-	-	299 847
K Sandile	131 376	9 300	3 600	-	-	2 400	146 676
M Nqini	192 472	44 100	59 405	3 600	-	-	299 577
MN Ngcofe	192 472	42 888	59 405	3 600	-	-	298 365
NS Mdledle	84 864	8 756	3 600	-	-	2 400	99 620
RB Pickering	192 472	44 100	59 405	3 600	-	-	299 577
S Malawu	134 502	32 160	54 405	2 700	-	-	223 767
SG Venkile	192 472	43 345	59 405	3 600	-	-	298 822
TR Desi	192 472	45 960	59 405	3 600	-	-	301 437
VW Tshaka	192 472	56 190	59 405	3 600	-	-	311 667
X Mngxaso	179 336	47 086	72 541	11 920	-	-	310 883
X Nqata	242 431	52 065	80 811	3 600	-	244	379 151
XM Tokwe	192 472	43 556	59 405	3 600	-	-	299 033
Z Ngudle	49 776	6 000	3 600	-	-	2 400	61 776
CT Ngxingolo	192 472	40 800	59 405	3 600	-	-	296 277
N Busika	179 336	56 190	72 541	3 600	-	-	311 667
NA Nkonya-Mtati	192 472	43 556	59 405	3 600	-	-	299 033
NC Nongqayi	179 336	56 190	72 541	3 600	-	-	311 667
NG Mekuto	88 944	9 300	3 600	-	-	2 400	104 244
NZ Klaas	128 315	27 526	39 603	2 430	2 015	-	199 889
	8 135 329	1 441 853	2 199 523	113 350	88 280	15 132	11 993 467

Management class: Executive management

*Refer to note "Employee related costs" 24

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

40. Change in estimate

Property, plant and equipment

The useful life of the certain items of Property, Plant and Equipment was revised during the current financial year. The effect of this revision has decreased the depreciation charges for the current period by R 2 096 238 and increase in depreciation in future periods by R 2 096 238.

41. 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

2019

	Note	As previously reported	Correction of error	Restated
Property, plant and equipment		374 935 538	408 757	375 344 295
Accumulated surplus		(295 157 676)	(408 757)	(295 566 433)
		79 777 862	-	79 777 862

2020

	Note	As previously reported	Correction of error	Restated
Inventories		1 209 532	(849 077)	360 455
Cash and Cash equivalents		48 330 017	(1 398 777)	46 931 240
VAT receivable		5 332 637	(5 213 437)	119 200
Property, plant and equipment		359 506 789	262 029	359 768 818
Accumulated surplus		(266 897 784)	7 199 262	(259 698 522)
		147 481 191	-	147 481 191

Statement of financial performance

2020

	Note	As previously reported	Correction of error	Restated
Property rates		20 209 467	(1 216 328)	18 993 139
Insurance refund		41 363 625	(5 395 886)	35 967 739
Depreciation and amortization		(26 598 371)	(49 049)	(26 647 420)
Loss on disposal of assets and liabilities		(3 128 398)	(946 757)	(4 075 155)
Surplus for the year		31 846 323	(7 608 020)	24 238 303

Errors

2019

Property Plant and Equipment – Correction of depreciation that was incorrectly calculated due to omission of residual values.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
41. Prior-year adjustments (continued)		
2020		
Inventories - Correction of Inventory stolen during 2020 financial year.		
Cash and cash equivalents – Correction of VAT refund which was duplicated under Revenue and the VAT control account.		
VAT Receivable – Correction of VAT refund incorrectly classified as Revenue.		
Property Plant and Equipment – Correction of depreciation that was incorrectly calculated due to omission of residual values.		
Accumulated surplus – Correction of VAT incorrectly classified as Revenue, Correction of VAT refund which was duplicated under Revenue and the VAT control account and Correction of depreciation that was incorrectly calculated due to omission of residual values.		
Property rates - Correction of VAT refund incorrectly classified as Revenue.		
Insurance refund - Correction of VAT refund incorrectly classified as Revenue.		
Depreciation and amortisation - Correction of depreciation that was incorrectly calculated due to omission of residual values.		
Loss on disposal of assets and liabilities - Correction of depreciation that was incorrectly calculated due to omission of residual values & write-off of stolen inventory.		
Irregular expenditure opening balance 2020		
Opening balance	-	82 476 589
Adjustments made	-	(4 695 455)
Restated opening balance	-	77 781 134
Irregular Expenditure on Free Basic Electricity - Correction of disclosure to reflect actual amounts paid.		
Irregular expenditure - Movement 2020		
Previously reported	-	20 501 981
Adjustments made	-	(3 817 327)
Restated movement	-	16 684 654
Irregular Expenditure on Free Basic Electricity - Correction of disclosure to reflect actual amounts paid.		
Inventories		
Opening balance	-	1 209 532
Adjustments made - Stolen Inventory	-	(849 077)
Restated opening balance	-	360 455
Cash and cash equivalents		
Opening balance	-	48 330 017
Adjustments made - SARS Refund incorrectly captured	-	(1 398 777)
Restated opening balance	-	46 931 240

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
41. Prior-year adjustments (continued)		
VAT receivable		
Opening balance	-	5 332 637
Adjustments made - Insurance refund VAT	-	(5 395 886)
Adjustments made - VAT output correction	-	182 449
Restated opening balance	-	119 200
Property rates		
Previously reported	-	20 209 467
Adjustments made - SARS refund captured incorrectly	-	(1 216 328)
Restated opening balance	-	18 993 139
Insurance refund		
Previously reported	-	41 363 625
Adjustments made - Insurance refund VAT	-	(5 395 886)
Restated opening balance	-	35 967 739
Depreciation and amortisation		
Previously reported	-	(26 598 371)
Adjustments made - Transport assets depreciation	-	(49 049)
Restated opening balance	-	(26 647 420)
Loss on disposal of assets and liabilities		
Previously reported	-	(3 128 398)
Adjustment made - Depreciation on recalculation of residual values	-	(97 680)
Adjustment made - Stolen Inventory	-	(849 077)
Restated opening balance	-	(4 075 155)

42. 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.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

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

42. Risk management (continued)

Credit risk

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

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

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

Financial instrument	2021	2020
Consumer debtors and other debtors	6 432 515	7 124 458
Receivables from non-exchange transactions	10 018 173	10 950 458
Cash and cash equivalents	13 426 476	48 330 017
Long-term receivables	346 550	346 550

Market risk

Risk from biological assets

The municipality is exposed to financial risks arising from changes in wood prices. The municipality does not anticipate that wood prices will decline significantly in the foreseeable future. The municipality has not entered into derivative contracts to manage the risk of a decline in wood prices. The municipality reviews its outlook for wood prices regularly in considering the need for active financial risk management.

Liquidity risk

The municipality does not hedge foreign exchange fluctuations.

The municipality risk relates to funds available for future commitments. The Municipality manages liquidity risk through ongoing review of future commitments, projected grant receipts and cash forecasting. Cash flow forecasts are prepared and borrowing facilities are monitored.

The municipality is not exposed to currency as no transactions are negotiated in foreign.

43. Going concern

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

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

The municipality is facing a number of financial risks that negatively impact its ability to sustain its current level of operations in the near future, before taking into account government grants. The key financial risks identified include:

- An inability to pay creditors within due dates.
- Negative key financial ratios.
- Net current liability was realised.

There is a material uncertainty related to existing conditions that may cast significant doubt on the entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and discharge its liabilities in the normal course of business.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

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

43. Going concern (continued)

The actions taken by management to mitigate the impact of these risks include:

- Management maintains detailed financial plans and manages working capital elements as necessary.
- Budget controls are in place to ensure that over-expenditure is eliminated.
- The treasury will continue to provide funding to the municipality in the foreseeable future.
- Council of the municipality has approved cost containment policy in line with the MFMA: Cost Containment Regulations.

44. Unauthorised expenditure

Opening balance	223 664 699	181 324 035
Add: Operating Expenditure identified - current	47 104 413	42 340 664
Add: Capital Expenditure identified - current	2 032 324	-
Closing balance	272 801 436	223 664 699

No investigations or disciplinary action has been taken yet with regards to the expenditure disclosed above.

45. Fruitless and wasteful expenditure

Opening balance	11 632 472	7 376 569
Add: Expenditure identified - current	3 723 612	4 255 903
Closing balance	15 356 084	11 632 472

No investigations or disciplinary action has been taken yet with regards to the expenditure disclosed above.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
46. Irregular expenditure		
Opening balance as previously reported	94 465 788	82 476 589
Correction of prior period error	-	(4 695 455)
Opening balance as restated	94 465 788	77 781 134
Add: Irregular Expenditure - current	17 733 598	16 684 654
Closing balance	112 199 386	94 465 788

Details of irregular expenditure

Irregular expenditure on payroll	Due processes were not followed before standardisation of salaries were paid	14 570 057	13 880 853
Irregular expenditure on contracts	SCM processes were not followed	1 229 678	2 303 801
Irregular expenditure on Free Basic Electricity	The municipality paid for indigents that do not appear on the indigent register	1 933 863	500 000
		17 733 598	16 684 654

Scope limitation

The limitation of scope relates to the burning down of municipal buildings during the second quarter of the 2018/19 financial year. There are 14 contracts that were awarded during the first and second quarter of 2018/19 financial year which were affected by the fire. Efforts made by the municipality to recreate the lost documentation proved to be impracticable. The contracts affected amount to R34,429,654.92 where the expenditure on these contracts amounts to R1,874,704.96 (2020:R5,962,796.81).

A majority of the contracts affected relates to capital projects which are funded through the municipal infrastructure grant.

Due to the event of the fire as mentioned and the subsequent effort to recreate the lost documents that proved to be impracticable, we cannot determine whether the expenditure incurred on these contracts is irregular or not.

Cases under investigation

No investigations or disciplinary action has been taken yet with regards to the expenditure disclosed above.

47. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 301 962	1 342 890
Amount paid - current year	(1 301 962)	(1 342 890)
	-	-

Material electrical distribution losses

Current year	11 689 860	9 777 464
--------------	-------------------	------------------

The municipality lost 8,767,780. kwhr (2020: 8,190,970 kwh) representing 34.24% (2020: 29.51%) of total bulk purchases of electricity from Eskom during the year. The losses are attributed to normal losses and illegal connections.

Audit fees

Current year subscription / fee	2 995 665	1 763 373
Amount paid - current year	(2 995 665)	(1 763 373)
	-	-

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

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

PAYE and UIF

Current year subscription / fee	23 823 658	21 654 307
Amount paid - current year	(24 063 370)	(21 654 307)
	<u>(239 712)</u>	<u>-</u>

Pension and Medical Aid Deductions

Opening balance	7 403 733	-
Current year subscription / fee	34 458 343	33 297 307
Amount paid - current year	(31 799 525)	(25 893 574)
	<u>10 062 551</u>	<u>7 403 733</u>

VAT

VAT receivable	<u>2 535 476</u>	<u>119 200</u>
----------------	------------------	----------------

VAT output payables and VAT input receivables are shown in note 7.

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

Councillors' arrear consumer accounts

No Councillors had arrear accounts outstanding for more than 90 days at 30 June 2021:

30 June 2020	Outstanding less than 90 days	Outstanding more than 90 days	Total
Monti N	340	450	790
Busika N	294	1 385	1 679
Pickering R	4 360	35 078	39 438
	<u>4 994</u>	<u>36 913</u>	<u>41 907</u>

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

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

Supply chain management regulations

In terms of section 36 of the Municipal Supply Chain Management Regulations the accounting officer may dispense of the official procurement process requirements in certain circumstances (e.g emergency or single procurement) and the accounting officer may ratify minor breaches of the procurement process if the breach is purely of a technical nature. However all such departures need to be approved by the Municipal Manager and noted by Council.

Incident

Babcock Africa Services	514 971	194 882
Buffalo Toyota	26 243	24 937
Cathcart Farms	50 708	-
Conlog (Pty) Ltd	-	11 730
Eyabantu	-	130 767
I and A Diesel Engines	-	55 966
Jambase Security Services	191 250	-
JD Strategic Investments	73 186	64 210
Management Integrity Evaluation	3 575	3 845
Meyers Motors	40 187	331 828
Multisurge	-	151 800
Ntshuza Trading (Pty) Ltd	-	29 050
One Pangae Expertise & Solutions	-	58 000
Peugair Border CC	74 909	-
Rencor Engineering	59 369	-
SignWorx	28 000	-
SNR Electrical CC	612 791	179 023
Stutt Delt Garage	256 098	43 626
Syco Machinery (Pty) Ltd	10 465	-
Titan Stutt	43 162	-
Tractor World	-	8 560
Universal Equipment	114 821	296 277
Unqondo Projects	-	70 187
Yande Engineering & Projects	-	183 931
	2 099 735	1 838 619

48. Segment information

General information

Identification of segments

The municipality is organised and reports to management on the basis of two major functional areas: electricity and solid waste removal services. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

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

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

48. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2021

	Electricity	Solid Waste Removal	Total
Revenue			
Revenue from non-exchange transactions	-	7 133 773	7 133 773
Revenue from exchange transactions	37 467 407	12 115 099	49 582 506
Total segment revenue	37 467 407	19 248 872	56 716 279
Interest revenue			8 058 972
Property rates			20 796 269
Government grants and subsidies			183 739 503
Other unallocated revenue			13 052 507
Total revenue reconciling items			225 647 251
Entity's revenue			282 363 530
Expenditure			
Salaries and wages	3 537 617	12 610 451	16 148 068
Vending management fee	253 552	-	253 552
Depreciation and amortisation	1 260 262	401 480	1 661 742
Bulk purchases	35 883 789	-	35 883 789
Contracted services	1 987 779	443 155	2 430 934
General expenses	105 447	140 465	245 912
Total segment expenditure	43 028 446	13 595 551	56 623 997
Total segmental surplus/(deficit)			92 282
Interest expense			(3 801 999)
Employee costs			(116 578 130)
Councillors remuneration			(11 598 706)
Depreciation and amortisation			(22 693 142)
Contracted services			(10 839 177)
General expenses			(20 125 906)
Unallocated expenses			(29 546 332)
Total revenue reconciling items			225 647 251
Entity's surplus (deficit) for the period			10 556 141
Assets			
Segment assets	37 233 212	19 412 647	56 645 859
Unallocated assets			382 505 600
Total assets as per Statement of financial Position			439 151 459
Liabilities			
Segment liabilities	-	149 749	149 749
Unallocated liabilities			168 747 047
Total liabilities as per Statement of financial Position			168 896 796

Information about geographical areas

The municipality operates throughout the Amahlathi Municipality in 3 towns in the Eastern Cape, i.e., Stutterheim, Cathcart and Keiskammahoek. Segments were not organised on the basis of differences in geographical areas of operation and the cost to develop such information would be excessive.

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

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

49. Accounting by principals and agents

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

Entity as agent

Revenue recognised

The aggregate amount of revenue that the entity recognised as compensation for the transactions carried out on behalf of the principal is R1 394 015 (2020: R1 758 447).

Additional information

Receivables and/or payables recognised based on the rights and obligations established in the binding arrangement(s)

Reconciliation of the carrying amount of payables

Category 1 MV Licences and registration

Opening balance	2 341 283	276 807
Amounts received on behalf of the principal	2 388 995	5 836 297
Amounts transferred to the principal	(3 188 409)	(2 013 374)
Amounts recognised as revenue for services rendered	(1 394 015)	(1 758 447)
	<u>147 854</u>	<u>2 341 283</u>

All categories

Opening balance	2 341 283	276 807
Amounts received on behalf of the principal	2 388 995	5 836 297
Amounts transferred to the principal	(3 188 409)	(2 013 374)
Amount recognised as revenue for services rendered	(1 394 015)	(1 758 447)
	<u>147 854</u>	<u>2 341 283</u>

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

50. Budget differences

Material differences between budget and actual amounts

Statement of Financial Performance

FinPerf1

Variance not material

FinPerf2

Covid regulations which reduced the demand for hiring of halls

FinPerf3

Variance not material

FinPerf4

Variance not material

FinPerf5

Variance not material

FinPerf6

This is due to mscoa chart where donations are mapped under transfers and subsidies

FinPerf7

This is due to insurance claims relating to prior years.

FinPerf8

Cash flow problems.

FinPerf9

Variance not material

FinPerf10

This is due to donations which must be reported as other revenue, but in mscoa chart mapped to transfers and subsidied

FinPerf11

This is due to lack of capacity in the traffic department to conduct law enforcement.

FinPerf12

Variance not material

FinPerf13

Variance not material

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

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

50. Budget differences (continued)

FinPerf14

Variance not material

FinPerf15

Ariance not material

FinPerf16

Still waiting for interest journal for 3rd parties

FinPerf17

This is due to late payment of creditors due to cash flow problems

FinPerf18

This is due to late payment of creditors due to cash flow problems

FinPerf19

This is due to late payments by debtors

FinPerf20

This is due to late payment of creditors due to cash flow problems

FinPerf21

This is due to different mSCOA and GRAP mapping

FinPerf22

This is due to different mSCOA and GRAP mapping.

Statement of Financial Position

FinPos1

This is due to theft that occurred in the electrical stores.

FinPos2

This is due to late payments by debtors.

FinPos3

This is due to late payments of creditors.

FinPos4

The difference is not material.

FinPos5

Due to changes in the market as per expert valuation

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

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

50. Budget differences (continued)

FinPos6

Variance not material

FinPos7

Variance not material

FinPos8

This is due to derecognition of some of the assets no longer meeting the recognition criteria

FinPos9

This is due to derecognition of some assets no longer meeting the recognition criteria.

FinPos10

Variance not material

FinPos11

Variance not material.

FinPos12

Variance not material

FinPos13

Variance not material

FinPos14

Provision still to be included

FinPos15

Full spending in majority of the grants

FinPost16

Due to changes in the market as per expert valuation

FinPos17

Due to expiry of some of the leases

FinPos18

Provision still to be included

FinPos19

Due to changes in the market as per expert valuation

Amahlathi Local Municipality

(Registration number EC 124)

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

50. Budget differences (continued)

Cash Flow Statement

C1

Implementation of meter audit which improved electricity revenue

C2

Variance not material

C3

Cash flow problems

C4

variance not material

C5

This is due to late payment of creditors due to cash flow problems

C6

Still waiting for interest journal for 3rd parties

C7

Variance not material

C8

Variance not material