



AMAHLATHI LOCAL MUNICIPALITY
(Registration number EC 124)
Annual Financial Statements
for the year ended 30 June 2022

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

General Information

Grading of local authority	Grade 3
Chief Finance Officer (CFO)	L Manjingolo
Accounting Officer	Dr Z Shasha
Registered office	12 Maclean Street Stutterheim 4930
Business address	Cnr Brownlee & Dragoon Street Stutterheim 4930
Postal address	Private Bag X4002 Stutterheim 4930
Bankers	First National Bank
Auditors	Auditor General of South Africa Registered Auditors
Mayoral committee	
Mayor	NC Nongqayi P Qaba (EXCO) XM Tokwe (EXCO) T Balindlela (EXCO) B Xongwana (EXCO) NA Kato-Manyika (EXCO)
Councillors	
Speaker	NP Mlahleki ZA Qonto (MPAC Chair) PM Onceya-Sauti A Hobo N Ngxakangxaka RB Pickering N Mbulana M Gantsho NV Mjandana NC Mkiva N Nyangwa N Charlie NZ Klaas M Busakwe ZE Mfulana X Neti M Nqini M Neku NO Sidinana PA Simandla N Ncevu

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

General Information

Traditional leaders

ME Maweni
N Salaze
O Mgunculu
NJ Ulana

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Index

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

	Page
Accounting Officer's Responsibilities and Approval	4
Statement of Financial Position	5
Statement of Financial Performance	6
Statement of Changes in Net Assets	7
Cash Flow Statement	8
Statement of Comparison of Budget and Actual Amounts	9 - 12
Accounting Policies	13 - 43
Notes to the Annual Financial Statements	45 - 86

Abbreviations used:

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2023 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

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

The annual financial statements set out on pages 5 to 86, which have been prepared on the going concern basis, were approved by the accounting officer on 30 November 2022 and were signed on its behalf by:

Dr Z Shasha
Accounting Officer

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021
Assets			
Current Assets			
Inventories	3	211 321	229 697
Consumer debtors	4	6 486 025	5 787 765
Receivables from non-exchange transactions	5	31 103 478	10 018 174
Cash and cash equivalents	6	10 231 906	13 426 476
VAT receivable	7	-	3 243 219
		48 032 730	32 705 331
Non-Current Assets			
Long-term receivables	8	346 551	346 551
Biological assets that form part of an agricultural activity	9	5 005 978	4 060 087
Investment property	10	11 687 949	11 810 023
Property, plant and equipment	11	389 848 765	389 495 242
Intangible assets	12	119 498	187 038
Heritage assets	13	610 183	610 183
		407 618 924	406 509 124
Total Assets		455 651 654	439 214 455
Liabilities			
Current Liabilities			
Finance lease obligation	14	191 482	16 244
Payables from exchange transactions	15	122 308 390	107 948 594
Consumer deposits	16	1 839 851	1 838 186
Employee benefit obligation	17	15 662 032	16 699 114
VAT payable	18	407 600	-
Unspent conditional grants and receipts	19	3 887 412	906 313
Provisions	20	440 703	417 728
		144 737 470	127 826 179
Non-Current Liabilities			
Finance lease obligation	14	449 937	-
Employee benefit obligation	17	31 245 765	35 849 000
Provisions	20	7 436 169	7 048 501
		39 131 871	42 897 501
Total Liabilities		183 869 341	170 723 680
Net Assets		271 782 313	268 490 775
Accumulated surplus		271 782 313	268 490 775
Total Net Assets		271 782 313	268 490 775

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021
Revenue			
Revenue from exchange transactions			
Service charges	21	54 476 857	49 447 552
Rental of facilities and equipment		171 206	58 386
Interest received - debtors		8 181 818	6 571 184
Licences and permits		1 780 476	2 388 017
Miscellaneous other revenue		269 383	6 900 482
Administration and management fees received		3 407	1 348
Insurance refund		-	1 501 602
Interest received - investment	22	366 008	1 001 492
Gain on disposal of assets and liabilities		58 906	-
Fair value adjustments		945 891	802 832
Total revenue from exchange transactions		66 253 952	68 672 895
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	22 178 071	20 575 851
Transfer revenue			
Government grants & subsidies	24	150 075 578	190 873 276
Fines, Penalties and Forfeits		12 024	5 826
Motor vehicle registrations		1 059 061	1 394 015
Total revenue from non-exchange transactions		173 324 734	212 848 968
Total revenue		239 578 686	281 521 863
Expenditure			
Employee related costs	25	(125 340 260)	(132 726 200)
Remuneration of councillors	26	(11 532 567)	(11 598 706)
Vending management fee	27	(285 659)	(253 552)
Depreciation and amortisation	28	(23 738 633)	(24 354 885)
Impairment loss on non-current assets	29	(2 316 302)	(1 215 365)
Finance costs	30	(2 535 798)	(3 801 999)
Lease rentals on operating lease		(121 573)	(184 112)
Debt Impairment	31	7 489 041	(26 485 045)
Bulk purchases	32	(42 657 682)	(35 883 789)
Contracted services	33	(10 882 496)	(13 270 111)
Loss on disposal of assets and liabilities		-	(1 661 813)
General Expenses	34	(24 365 225)	(24 529 449)
Total expenditure		(236 287 154)	(275 965 026)
Surplus for the year		3 291 532	5 556 837

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	259 698 529	259 698 529
Adjustments		
Prior year adjustments Note 42	3 235 409	3 235 409
Balance at 01 July 2020 as restated*	262 933 938	262 933 938
Changes in net assets		
Surplus for the year	5 556 837	5 556 837
Total changes	5 556 837	5 556 837
Surplus for the year as previously reported	10 556 138	10 556 138
Adjustments		
Prior year adjustments Note 42	(4 999 301)	(4 999 301)
Balance at 01 July 2021 as restated*	268 490 781	268 490 781
Changes in net assets		
Surplus for the year	3 291 532	3 291 532
Total changes	3 291 532	3 291 532
Balance at 30 June 2022	271 782 313	271 782 313

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Cash Flow Statement

Figures in Rand	Note(s)	2022	2021
Cash flows from operating activities			
Receipts			
Cash receipts from customers		69 306 788	55 214 013
Grants		150 075 578	190 873 276
Interest income		8 547 826	7 572 675
		<u>227 930 192</u>	<u>253 659 964</u>
Payments			
Employee costs		(136 872 827)	(144 324 907)
Suppliers		(66 181 380)	(84 099 654)
Finance costs		(2 535 798)	(3 801 999)
		<u>(205 590 005)</u>	<u>(232 226 560)</u>
Net cash flows from operating activities	36	<u>22 340 187</u>	<u>21 433 404</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	11	(27 008 663)	(54 761 550)
Proceeds from sale of property, plant and equipment	11	848 726	-
Net cash flows from investing activities		<u>(26 159 937)</u>	<u>(54 761 550)</u>
Cash flows from financing activities			
Finance lease payments		<u>625 175</u>	<u>(176 620)</u>
Net increase/(decrease) in cash and cash equivalents		(3 194 575)	(33 504 766)
Cash and cash equivalents at the beginning of the year		<u>13 426 476</u>	<u>46 931 240</u>
Cash and cash equivalents at the end of the year	6	<u>10 231 901</u>	<u>13 426 474</u>

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	52 200 000	-	52 200 000	54 476 857	2 276 857	FinPerf01
Rental of facilities and equipment	171 000	(71 000)	100 000	171 206	71 206	FinPerf02
Interest received (trading)	10 000 000	(1 686 642)	8 313 358	8 181 818	(131 540)	FinPerf03
Licences and permits	2 340 000	-	2 340 000	1 780 476	(559 524)	FinPerf04
Miscellaneous other revenue	5 302 539	(300)	5 302 239	269 383	(5 032 856)	FinPerf05
Administration and management fees received	50 000	-	50 000	3 407	(46 593)	FinPerf06
Insurance refund	3 100 000	-	3 100 000	-	(3 100 000)	FinPerf07
Interest received - investment	1 845 000	(1 355 000)	490 000	366 008	(123 992)	FinPerf08
Total revenue from exchange transactions	75 008 539	(3 112 942)	71 895 597	65 249 155	(6 646 442)	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	23 784 700	-	23 784 700	22 178 071	(1 606 629)	FinPerf09
Transfer revenue						
Government grants & subsidies	149 625 000	4 206 312	153 831 312	150 075 578	(3 755 734)	FinPerf10
Fines, Penalties and Forfeits	105 000	(50 000)	55 000	12 024	(42 976)	FinPerf11
Motor vehicle registrations	1 758 447	-	1 758 447	1 059 061	(699 386)	FinPerf12
Total revenue from non-exchange transactions	175 273 147	4 156 312	179 429 459	173 324 734	(6 104 725)	
Total revenue	250 281 686	1 043 370	251 325 056	238 573 889	(12 751 167)	
Expenditure						
Personnel	(129 930 826)	-	(129 930 826)	(125 340 260)	4 590 566	FinPerf13
Remuneration of councillors	(11 996 067)	-	(11 996 067)	(11 532 567)	463 500	FinPerf14
Administration	(519 500)	50 000	(469 500)	(285 659)	183 841	FinPerf15
Depreciation and amortisation	(26 000 000)	-	(26 000 000)	(23 738 633)	2 261 367	FinPerf16
Impairment loss/ Reversal of impairments	-	-	-	(2 316 302)	(2 316 302)	
Finance costs	(3 117 000)	-	(3 117 000)	(2 535 798)	581 202	FinPerf17
Lease rentals on operating lease	(311 700)	-	(311 700)	(121 573)	190 127	FinPerf18
Debt Impairment	(20 000 000)	-	(20 000 000)	7 489 041	27 489 041	FinPerf19
Bulk purchases	(36 606 099)	-	(36 606 099)	(42 657 682)	(6 051 583)	FinPerf21
Contracted Services	(20 423 000)	1 618 694	(18 804 306)	(10 882 496)	7 921 810	FinPerf22
General Expenses	(16 877 997)	(180 363)	(17 058 360)	(24 365 225)	(7 306 865)	FinPerf23
Total expenditure	(265 782 189)	1 488 331	(264 293 858)	(236 287 154)	28 006 704	
Operating surplus	(15 500 503)	2 531 701	(12 968 802)	2 286 735	15 255 537	
Gain on disposal of assets and liabilities	-	-	-	58 906	58 906	
Fair value adjustments	-	-	-	945 891	945 891	
	-	-	-	1 004 797	1 004 797	
Surplus before taxation	(15 500 503)	2 531 701	(12 968 802)	3 291 532	16 260 334	

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	(15 500 503)	2 531 701	(12 968 802)	3 291 532	16 260 334	
Reconciliation						

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	1 186 440	(956 743)	229 697	211 321	(18 376)	FinPos01
Receivables from non-exchange transactions	10 950 459	(932 286)	10 018 173	31 103 478	21 085 305	FinPos02
VAT receivable	5 332 637	(2 797 160)	2 535 477	(407 600)	(2 943 077)	FinPos03
Consumer debtors	7 124 458	(691 942)	6 432 516	6 486 025	53 509	FinPos04
Cash and cash equivalents	31 430 752	(24 640 684)	6 790 068	10 231 906	3 441 838	FinPos05
	56 024 746	(30 018 815)	26 005 931	47 625 130	21 619 199	
Non-Current Assets						
Biological assets that form part of an agricultural activity	3 420 800	639 287	4 060 087	5 005 978	945 891	FinPos06
Investment property	13 604 031	(1 794 008)	11 810 023	11 687 949	(122 074)	FinPos07
Property, plant and equipment	449 640 354	(46 477 512)	403 162 842	389 848 765	(13 314 077)	FinPos08
Intangible assets	428 191	(241 152)	187 039	119 498	(67 541)	FinPos09
Heritage assets	610 183	-	610 183	610 183	-	FinPos10
Long-term receivables	346 550	1	346 551	346 551	-	FinPos11
	468 050 109	(47 873 384)	420 176 725	407 618 924	(12 557 801)	
Total Assets	524 074 855	(77 892 199)	446 182 656	455 244 054	9 061 398	
Liabilities						
Current Liabilities						
Finance lease obligation	176 620	(160 376)	16 244	191 482	175 238	FinPos12
Payables from exchange transactions	81 726 892	8 389 931	90 116 823	122 308 390	32 191 567	FinPos13
Consumer deposits	1 799 583	38 603	1 838 186	1 839 851	1 665	FinPos14
Employee benefit obligation	17 144 597	(445 483)	16 699 114	15 662 032	(1 037 082)	FinPos15
Unspent conditional grants and receipts	5 000 000	(4 000 000)	1 000 000	3 887 412	2 887 412	FinPos16
Provisions	4 503 148	(4 085 420)	417 728	440 703	22 975	FinPos17
	110 350 840	(262 745)	110 088 095	144 329 870	34 241 775	
Non-Current Liabilities						
Finance lease obligation	16 244	(16 244)	-	449 937	449 937	
Employee benefit obligation	31 421 000	4 428 000	35 849 000	31 245 765	(4 603 235)	FinPos15
Provisions	142 225	6 906 276	7 048 501	7 436 169	387 668	FinPos17
	31 579 469	11 318 032	42 897 501	39 131 871	(3 765 630)	
Total Liabilities	141 930 309	11 055 287	152 985 596	183 461 741	30 476 145	
Net Assets	382 144 546	(88 947 486)	293 197 060	271 782 313	(21 414 747)	
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	382 144 546	(88 947 486)	293 197 060	271 782 313	(21 414 747)	

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Cash receipts from customers	88 816 686	(126 300)	88 690 386	69 306 788	(19 383 598)	C1
Grants	149 625 000	4 206 312	153 831 312	150 075 578	(3 755 734)	C2
Interest income	11 845 000	(3 041 642)	8 803 358	8 547 826	(255 532)	C3
	250 286 686	1 038 370	251 325 056	227 930 192	(23 394 864)	
Payments						
Employee costs	(141 926 893)	-	(141 926 893)	(136 872 827)	5 054 066	C4
Suppliers	(69 738 296)	(3 511 669)	(73 249 965)	(66 181 380)	7 068 585	C5
Finance costs	(3 117 000)	-	(3 117 000)	(2 535 798)	581 202	C6
	(214 782 189)	(3 511 669)	(218 293 858)	(205 590 005)	12 703 853	
Net cash flows from operating activities	35 504 497	(2 473 299)	33 031 198	22 340 187	(10 691 011)	
Cash flows from investing activities						
Purchase of property, plant and equipment	(31 130 100)	(8 537 500)	(39 667 600)	(27 008 663)	12 658 937	C7
Proceeds from sale of property, plant and equipment	-	-	-	848 727	848 727	
Net cash flows from investing activities	(31 130 100)	(8 537 500)	(39 667 600)	(26 159 936)	13 507 664	
Cash flows from financing activities						
Finance lease payments	-	-	-	625 175	625 175	C8
Net increase/(decrease) in cash and cash equivalents	4 374 397	(11 010 799)	(6 636 402)	(3 194 574)	3 441 828	
Cash and cash equivalents at the beginning of the year	27 056 355	(13 629 885)	13 426 470	13 426 476	6	
Cash and cash equivalents at the end of the year	31 430 752	(24 640 684)	6 790 068	10 231 902	3 441 834	
Reconciliation						

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

Figures in Rand	Note(s)	2022	2021
-----------------	---------	------	------

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 municipality makes judgements as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables 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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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 20 - 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.

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

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

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

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	05 - 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.

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.7 Property, plant and equipment (continued)

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	15 - 30 years	
• Machinery and equipment	04 - 15 years	
• Computer equipment	03 - 05 years	
• Furniture and office equipment	05 - 07 years	
• Transport assets	04 - 15 years	
• Office equipment - Leased assets	03 - 15 years	
• Buildings airconditioning system	10 - 15 years	

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

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

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.7 Property, plant and equipment (continued)

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

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

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

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

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

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

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.

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.

AMAHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.8 Intangible assets (continued)

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).

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.

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.9 Heritage assets (continued)

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.10 (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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.10 (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

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 [if subsequently measured at 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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.10 (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.

Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, 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:

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.10 (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 financial assets using trade date accounting.

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.10 (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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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.

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.13 Inventories (continued)

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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

Annual Financial Statements for the year ended 30 June 2022

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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 overdesigned or overcapacity asset. Overdesigned 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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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 39.

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

- the amount determined using 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.

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.18 Commitments (continued)

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

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

1.19 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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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 if 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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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

Bequests that satisfy the definition of an asset 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.

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.

Concessionary loans received

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

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.

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

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

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.

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

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 2021/07/01 to 2022/06/30.

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

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

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.30 Related parties (continued)

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.

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 effect 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 recognise 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 assets and contingent liabilities are disclosed in note 39.

1.34 Value added tax (VAT)

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

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

(continued)

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 recognise a payable for VAT.

The Municipality accounts for VAT on a payments basis.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

2. New standards and interpretations

2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<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

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2022 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
<ul style="list-style-type: none">Guideline: Guideline on Accounting for Landfill Sites	No effective date issued	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 25 (as revised): Employee Benefits	No effective date issued	Unlikely there will be a material impact
<ul style="list-style-type: none">iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	No effective date issued	Unlikely there will be a material impact
<ul style="list-style-type: none">Guideline: Guideline on the Application of Materiality to Financial Statements	No effective date issued	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 104 (as revised): Financial Instruments	01 April 2025	Unlikely there will be a material impact
<ul style="list-style-type: none">iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	Unlikely there will be a material impact
<ul style="list-style-type: none">GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Unlikely there will be a material impact

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
3. Inventories		
Electricity	196 436	196 251
Rates and general	14 885	33 446
	211 321	229 697

3.1 Non - Financial information

Electricity inventories recognised as an expense during the year	-	95 067
Rates and general inventories recognised as an expense during the year	18 561	35 691
	18 561	130 758

Inventories of R201 287 were stolen during the year. Management is in the process of investigating the matter and having the items approved for write-off by council.

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

Electricity

Electricity sockets, transformers, plugs, meter boxes and other smaller items.

Rates and general

Cleaning materials, printing and stationery materials and other smaller items.

Inventory pledged as security

None of the inventory was pledged as security for period.

4. Consumer debtors

Gross balances

Consumer Debtors - Electricity	3 991 368	25 170 463
Consumer Debtors - Fire levy	5 368 218	-
Consumer Debtors - Refuse	51 393 973	35 060 076
Consumer Debtors - Sundry debtors	3 073 552	3 278 746
Other debtors	(198 070)	538 133
Consumer Debtors - Impairment of exchange debtors	(57 143 016)	(58 259 653)
	6 486 025	5 787 765

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 or to historical information about counterparty default rates.

Consumer debtors past due but not impaired

At 30 June 2022, R 3 174 738 (2021: R 3 517 766) were past due but not impaired.

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

1 month past due	1 033 634	1 274 416
2 months past due	949 470	835 606
3 months past due	1 191 634	1 407 745

AMAHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

4. Consumer debtors (continued)

Consumer debtors impaired

As of 30 June 2022, consumer debtors of R 63 320 614 (2021: R 64 047 418) were impaired and provided for.

The amount of the provision was R 57 143 018 as of 30 June 2022 (2021: R 58 259 653).

Reconciliation of allowance for impairment of consumer debtors

Opening balance	58 259 653	44 883 373
Provision for impairment	(1 116 635)	13 376 280
	<u>57 143 018</u>	<u>58 259 653</u>

5. Receivables from non-exchange transactions

Consumer debtors - Rates	65 698 252	50 985 353
Consumer debtors - Impairment non-exchange debtors	(34 594 774)	(40 967 179)
	<u>31 103 478</u>	<u>10 018 174</u>

Statutory receivables general information

Statutory receivables - Property rates

Included in Receivables from non-exchange transactions are statutory receivables of R65 698 252 (2021: R 50 985 353).

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 statutory receivables from non-exchange transactions

Consumer debtors - Rates	65 698 252	50 985 353
Impairment	(34 594 774)	(40 967 179)
	<u>31 103 478</u>	<u>10 018 174</u>

Credit quality of 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

At 30 June 2022, R 2 580 810 (2021: R 1 202 334) were past due but not impaired.

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

1 month past due	756 734	421 463
2 months past due	681 223	308 186
3 months past due	1 142 853	472 685

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
-----------------	------	------

5. Receivables from non-exchange transactions (continued)

Statutory receivables from non-exchange transactions impaired

As of 30 June 2022, other receivables from non-exchange transactions of R 65 698 252 (2021: R 50 985 353) were impaired and provided for.

The amount of the provision was R 34 594 774 as of 30 June 2022 (2021: R 40 967 179).

The ageing of these loans is as follows:

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

Opening balance	40 967 179	35 373 661
Provision for impairment	(6 372 405)	5 593 518
	34 594 774	40 967 179

6. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	479 360	538 741
Bank balances	1 243 834	(71 201)
Other cash and cash equivalents	8 508 712	12 958 936
	10 231 906	13 426 476

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

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

6. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
Cash on hand	-	-	-	479 360	538 741	502 756
First National Bank Cheque Account (Primary Bank Account): 53813535227	1 243 836	(78 402)	67 566	1 243 836	(71 201)	82 635
First National Bank Account: 62135193770	2 006	7 382 705	32 419 404	2 006	7 382 705	32 419 404
First National Bank Account: 62063171351	1 048	48	(2 012)	1 048	48	(8 937)
First National Bank Account: 61381739619	7 660	45 747	1 076 697	7 660	45 747	1 076 697
First National Bank Account: 74568809858	5 391 516	5 364 781	5 503 314	5 391 516	5 364 781	5 503 314
First National Bank Account: 62774381942	1 077	33 573	684 741	1 077	33 573	684 741
First National Bank Account: 62774381009	1 135	1 103	2 352	1 135	1 103	2 352
First National Bank Account: 62774381413	17 624	17 124	16 705	17 624	17 124	16 705
First National Bank Account: 62774382445	2 178	2 116	1 102	2 178	2 116	1 102
First National Bank Account: 62774382966	3 079 746	102 099	6 642 267	3 079 746	102 099	6 645 267
First National Bank Account: 62774383592	4 720	9 640	1 476	4 720	9 640	1 476
Total	9 752 546	12 880 534	46 413 612	10 231 906	13 426 476	46 927 512

7. VAT receivable

VAT					-	3 243 219
-----	--	--	--	--	---	-----------

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% (2021: 6%).

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

9. Biological assets that form part of an agricultural activity

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Trees in plantation forest	5 005 978	-	5 005 978	4 060 087	-	4 060 087

Reconciliation of biological assets that form part of an agricultural activity - 2022

	Opening balance	Gains or losses arising from changes in fair value	Total
Trees in plantation forest	4 060 087	945 891	5 005 978

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 plantation forest	3 420 800	(163 545)	802 832	4 060 087

Non-financial information

Immature biological assets

Trees in timber 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 2022. The Faustmann valuation technique was applied for the valuation of biological assets.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

10. Investment property

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	27 897 854	(16 209 905)	11 687 949	28 014 551	(16 204 528)	11 810 023

Reconciliation of investment property - 2022

	Opening balance	Impairments	Depreciation	Total
Investment property	11 810 023	(116 697)	(5 377)	11 687 949

Reconciliation of investment property - 2021

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

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.

11. Property, plant and equipment

	2022			2021		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	6 933 932	-	6 933 932	6 933 932	-	6 933 932
Buildings	73 742 969	(33 134 159)	40 608 810	63 467 472	(30 649 686)	32 817 786
Machinery and equipment	5 792 416	(4 368 238)	1 424 178	5 577 841	(4 034 853)	1 542 988
Furniture and office equipment	1 629 545	(1 542 675)	86 870	1 737 662	(1 623 840)	113 822
Transport assets	25 495 628	(17 832 950)	7 662 678	30 050 357	(20 569 251)	9 481 106
Computer equipment	2 446 619	(1 980 204)	466 415	2 444 878	(2 006 730)	438 148
Roads	393 816 173	(170 097 766)	223 718 407	369 109 132	(152 422 623)	216 686 509
Electricity	44 126 528	(19 217 923)	24 908 605	44 126 528	(15 912 562)	28 213 966
Work-in-progress	72 672 175	(1 062 819)	71 609 356	85 698 419	(1 062 819)	84 635 600
Office equipment - Leased assets	670 233	(55 700)	614 533	312 227	(312 227)	-
Cemeteries	1 256 961	(847 451)	409 510	1 256 961	(819 401)	437 560
Airports	1 127 000	(850 557)	276 443	1 127 000	(827 805)	299 195
Landfill sites	14 957 955	(3 828 927)	11 129 028	10 930 052	(3 035 422)	7 894 630
Total	644 668 134	(254 819 369)	389 848 765	622 772 461	(233 277 219)	389 495 242

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Transfers received	Depreciation	Impairment loss	Total
Land	6 933 932	-	-	-	-	-	6 933 932
Buildings	32 817 786	3 421 984	-	6 853 514	(2 484 474)	-	40 608 810
Machinery and equipment	1 542 988	155 303	(1 350)	-	(272 763)	-	1 424 178
Furniture and office equipment	113 822	6 913	(5 503)	-	(28 362)	-	86 870
Transport assets	9 481 106	-	(770 918)	-	(1 047 510)	-	7 662 678
Computer equipment	438 148	192 016	(12 049)	-	(151 700)	-	466 415
Roads	216 686 509	5 257 715	-	19 449 327	(17 675 144)	-	223 718 407
Electricity	28 213 966	-	-	-	(1 105 756)	(2 199 605)	24 908 605
Work-in-progress	84 635 600	17 304 499	-	(30 330 743)	-	-	71 609 356
Office equipment - leased assets	-	670 233	-	-	(55 700)	-	614 533
Cemeteries	437 560	-	-	-	(28 050)	-	409 510
Airports	299 195	-	-	-	(22 752)	-	276 443
Landfill sites	7 894 630	-	-	4 027 902	(793 504)	-	11 129 028
	389 495 242	27 008 663	(789 820)	-	(23 665 715)	(2 199 605)	389 848 765

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

11. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals	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	438 074	176 141	-	-	(176 067)	438 148
Roads	217 648 613	9 100 155	(566 152)	7 626 287	(17 122 394)	216 686 509
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

Pledged as security

No property, plant and equipment assets were pledged as security.

Assets subject to finance lease (Net carrying amount)

Office equipment - leased assets	614 533	-
----------------------------------	---------	---

Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Community	Included within Other PPE	Total
Opening balance	69 814 441	5 397 981	9 423 178	84 635 600
Additions/capital expenditure	6 813 634	-	10 490 865	17 304 499
Transferred to completed items	(20 326 227)	-	(10 004 516)	(30 330 743)
	56 301 848	5 397 981	9 909 527	71 609 356

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

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

12. Intangible assets

	2022			2021		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	1 921 435	(1 801 937)	119 498	1 921 435	(1 734 397)	187 038

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer software	187 038	(67 540)	119 498

Reconciliation of intangible assets - 2021

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

Pledged as security

No intangible assets were pledged as security.

13. Heritage assets

	2022			2021		
	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 2022

	Opening balance	Total
Historical monuments	610 183	610 183

Reconciliation of heritage assets 2021

	Opening balance	Total
Historical monuments	610 183	610 183

Pledged as security

No heritage assets were pledged as security.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
14. Finance lease obligation		
Minimum lease payments due		
- within one year	288 495	16 509
- in second to fifth year inclusive	528 908	-
	<u>817 403</u>	<u>16 509</u>
less: future finance charges	(175 984)	(265)
Present value of minimum lease payments	<u>641 419</u>	<u>16 244</u>
Present value of minimum lease payments due		
- within one year	191 482	16 244
- in second to fifth year inclusive	449 937	-
	<u>641 419</u>	<u>16 244</u>
Non-current liabilities	449 937	-
Current liabilities	191 482	16 244
	<u>641 419</u>	<u>16 244</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	90 123 520	80 792 093
Consumer debtors with credit balances	2 412 771	2 097 978
Other payables	27 910 852	22 236 645
Retention creditors	1 228 479	2 190 043
Agency fees payable	632 768	631 835
	<u>122 308 390</u>	<u>107 948 594</u>

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

16. Consumer deposits

Electricity	<u>1 839 851</u>	<u>1 838 186</u>
-------------	------------------	------------------

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

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
17. Employee benefit obligations		
Defined benefit plan		
The defined benefit plan consists of the Post 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, One Pangaea Financial carried out a statutory valuation on 30 June 2022 (30 June 2021 Arch Actuaries).		
Carrying value		
Present value of the defined benefit obligation-wholly unfunded	30 027 000	25 981 000
Present value of the defined benefit obligation-partly or wholly funded	1 266 000	888 000
Interest costs	2 982 000	2 617 000
Net actuarial gains	(8 045 584)	1 690 627
Benefits paid	(1 141 000)	(1 149 627)
	25 088 416	30 027 000
Non-current liabilities	23 971 162	28 886 000
Current liabilities	1 117 254	1 141 000
	25 088 416	30 027 000
Key assumptions used		
Assumptions used at the reporting date:		
Discount rates used	12,41 %	10,12 %
Expected rate of return on assets	3,19 %	3,12 %
Medical cost trend rates	8,94 %	6,79 %
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	65 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	80
Male members	72	72

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021	
17. Employee benefit obligations (continued)			
	1% decrease	Base (8,94%)	1% increase
Defined benefit obligation	(22 155)	(25 088)	(28 636)
Service cost (next financial year)	(892)	(1 077)	(1 312)
Interest cost (next financial year)	(2 680)	(3 044)	(3 484)
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 2022 281, (2021: 289) employees were eligible for Long service bonus.			
Carrying value			
Present value of the defined benefit obligation-wholly unfunded	8 197 000	7 628 000	
Present value of the defined benefit obligation-partly or wholly funded	942 000	925 000	
Interest costs	688 000	509 000	
Net actuarial gains	(20 162)	(7 261)	
Benefits paid	(1 234 000)	(857 739)	
	8 572 838	8 197 000	
Non-current liabilities	7 274 603	6 963 000	
Current liabilities	1 298 235	1 234 000	
	8 572 838	8 197 000	
Key assumptions used			
Assumptions used at the reporting date:			
Discount rates used	10,22 %	9,06 %	
Net discount rates used	2,33 %	3,12 %	
Salary inflation	7,71 %	5,76 %	
Other assumptions			
Normal retirement age	62 years	62 years	
Number of trading days per year	252	252	
Membership data			
Female members	100	100	
Male members	181	189	

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

17. Employee benefit obligations (continued) Short-term employee benefits obligations

Provision for bonus

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

Carrying value

Opening balance	4 120 374	3 758 528
Service bonus	3 858 332	4 120 374
Utilised during the year	(4 120 374)	(3 758 528)
	<u>3 858 332</u>	<u>4 120 374</u>

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

Carrying value

Opening balance	10 203 740	11 198 069
Leave gratuity - obligation	6 302 941	5 741 369
Utilised during the year	(7 118 470)	(6 735 698)
	<u>9 388 211</u>	<u>10 203 740</u>

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

Carrying value

Non-current portion of Post Retirement Benefits	(23 971 162)	(28 886 000)
Non-current portion of Long Service Awards	(7 274 603)	(6 963 000)
Current portion of Post Retirement Benefits	(1 117 254)	(1 141 000)
Current portion of Long Service Awards	(1 298 235)	(1 234 000)
Provision for bonus	(3 858 332)	(4 120 374)
Accrual for leave gratuity	(9 388 211)	(10 203 740)
	<u>(46 907 797)</u>	<u>(52 548 114)</u>
Non-current liabilities	(31 245 765)	(35 849 000)
Current liabilities	(15 662 032)	(16 699 114)
	<u>(46 907 797)</u>	<u>(52 548 114)</u>

Net expense recognised in the statement of financial performance

Current service cost	2 208 000	1 813 000
Interest cost	3 670 000	3 126 000
Actuarial (gains) losses	(8 065 746)	1 683 366
	<u>(2 187 746)</u>	<u>6 622 366</u>

Other assumptions

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

	2022 R	2021 R	2020 R	2019 R	2018 R
Post Retirement Benefits	25 088 416	30 027 000	25 981 000	27 804 355	29 374 981
Long Service Awards	8 572 838	8 197 000	7 628 000	7 134 236	5 608 531

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
18. VAT payable		
Tax refunds payables	407 600	-
19. Unspent conditional grants and receipts		
Unspent conditional grants and receipts comprises of:		
Unspent conditional grants and receipts		
Waste grant	3 080 170	-
Disaster relief grant	-	133 506
Staff training	807 242	772 807
	3 887 412	906 313
Movement during the year		
Balance at the beginning of the year	906 313	38 067 472
Surrendered to NRF/Roll over not approved	-	(10 175 000)
Grants received during the year	153 056 678	163 887 116
Income recognition during the year	(150 075 579)	(190 873 275)
	3 887 412	906 313

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 24 for reconciliation of grants from National/Provincial Government.

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

20. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Increased during the year	Total
Provision for landfill sites	7 466 229	410 643	7 876 872

Reconciliation of provisions - 2021

	Opening Balance	Increased during the year	Total
Provision for landfill sites	4 645 373	2 820 856	7 466 229
Non-current liabilities		7 436 169	7 048 501
Current liabilities		440 703	417 728
		7 876 872	7 466 229

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

20. Provisions (continued)

Environmental rehabilitation provision

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 +/- 5 years
- Stutterheim landfill site is approximately +/- 5 years
- Keiskammahoek landfill site is approximately +/- 5 years

21. Service charges

Sale of electricity	38 647 741	37 353 269
Fire levy	4 763 859	-
Refuse removal	10 855 560	11 980 145
Other service charges	209 697	114 138
	<u>54 476 857</u>	<u>49 447 552</u>

22. Investment revenue

Interest revenue

Bank	366 008	1 001 492
------	---------	-----------

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

23. Property rates

Rates received

Property rates	23 601 420	21 931 249
Less: Rebates	(1 423 349)	(1 355 398)
	<u>22 178 071</u>	<u>20 575 851</u>

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
23. Property rates (continued)		
Valuations		
Residential	1 159 618 500	1 159 618 500
Commercial	225 211 255	225 211 255
State	752 576 208	752 576 208
Municipal	357 463 601	357 463 601
Small holdings and farms	2 462 899 299	2 462 899 299
Public service infrastructure	60 562 346	-
Vacant land	101 280 903	101 280 903
Properties used for multi purposes (Mix)	5 165 000	5 165 000
Industrial properties	42 887 501	42 887 501
	5 167 664 613	5 107 102 267

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

Rates are levied on a monthly basis as per the approved tariffs with interest at prime plus 1% per annum is levied on rates outstanding monthly.

24. Government grants & subsidies

Operating grants

Equitable share	115 504 000	131 642 000
Library grant	1 200 000	1 200 000
Municipal infrastructure grant (MIG)	29 558 000	47 697 503
Expanded public works programme (EPWP)	1 263 000	1 000 000
Financial management grant (FMG)	2 100 000	2 200 000
Staff training	97 243	-
Waste grant	219 829	6 989 022
Disaster relief grant	133 506	144 751
	150 075 578	190 873 276

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
Conditions met - transferred to revenue	-	(233 712)
	-	-

Conditions still to be met - remain liabilities (see note 19).

To improve waste site management and ensure clean environment.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
24. Government grants & subsidies (continued)		
Financial management grant (FMG)		
Current-year receipts	2 100 000	2 200 000
Conditions met - transferred to revenue	(2 100 000)	(2 200 000)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 19).		
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.		
Recycling centre		
Balance unspent at beginning of year	-	122 310
Conditions met - transferred to revenue	-	(122 310)
	<u>-</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 19).		
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 19).		
To transform urban and rural community infrastructure, facilities and services through a recapitalised programme.		
Waste collection grant		
Balance unspent at beginning of year	-	6 633 000
Current-year receipts	3 300 000	-
Conditions met - transferred to revenue	(219 830)	(6 633 000)
	<u>3 080 170</u>	<u>-</u>
Conditions still to be met - remain liabilities (see note 19).		
To support in respect of waste management activities & EPWP cleansing project.		
Disaster relief grant		
Balance unspent at beginning of year	133 506	278 257
Conditions met - transferred to revenue	(133 506)	(144 751)
	<u>-</u>	<u>133 506</u>
Conditions still to be met - remain liabilities (see note 19).		
To assist in the response to COVID-19.		

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
24. Government grants & subsidies (continued)		
Municipal infrastructure grant (MIG)		
Balance unspent at beginning of year	-	29 895 677
Surrendered to NRF/Roll over not approved	-	(9 827 174)
Current-year receipts	29 558 000	27 629 000
Conditions met - transferred to revenue	(28 080 100)	(46 298 903)
Operating expenditure	(1 477 900)	(1 398 600)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 19).

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	772 807	556 690
Current-year receipts	131 678	216 117
Conditions met - transferred to revenue	(97 243)	-
	<u>807 242</u>	<u>772 807</u>

Conditions still to be met - remain liabilities (see note 19).

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
Surrendered to NRF/Roll over not approved	-	(347 826)
Current-year receipts	1 263 000	1 000 000
Conditions met - transferred to revenue	(1 263 000)	(1 000 000)
	<u>-</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 19).

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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
25. Employee related costs		
Basic	90 286 762	85 944 555
Bonus	7 308 771	7 176 307
Medical aid - company contributions	6 693 754	6 579 486
UIF	581 158	527 434
Defined contribution plans	(4 810 325)	5 217 937
Travel, motor car, accommodation, subsistence and other allowances	1 402 424	1 456 406
Overtime payments	787 713	1 453 755
Acting allowances	382 048	761 859
Travel allowance	4 985 162	5 268 371
Housing benefits and allowances	2 819 450	2 976 180
Industrial council levy	35 845	35 618
Pension fund contributions by council	14 867 498	15 328 292
	125 340 260	132 726 200
Remuneration of municipal manager		
Annual remuneration	868 986	786 839
Car allowance	322 524	322 524
Contributions to UIF, medical and pension funds	206 382	199 270
Cellphone allowance	24 000	24 000
	1 421 892	1 332 633
Remuneration of chief finance officer		
Annual remuneration	899 977	854 144
Travel allowance	120 000	120 000
Contributions to UIF, medical and pension funds	11 027	10 292
Cellphone allowance	16 800	16 800
	1 047 804	1 001 236
Remuneration of corporate service manager		
Annual remuneration	817 848	-
Contributions to UIF, medical and pension funds	10 240	812
Leave	-	81 159
	828 088	81 971
Remuneration of development and planning manager		
Annual remuneration	669 148	852 138
Backpay	-	6 734
Contributions to UIF, medical and pension funds	8 504	10 660
Cellphone allowance	12 600	16 800
	690 252	886 332
Remuneration of infrastructure director		
Annual remuneration	678 254	-
Travel allowance	120 000	-
Performance Bonuses	59 854	-
Contributions to UIF, medical and pension funds	67 392	-
Cellphone allowance	16 800	-
Leave	30 874	-
	973 174	-

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
25. Employee related costs (continued)		
Remuneration of community service manager		
Annual remuneration	838 545	317 227
Backpay	-	6 734
Contributions to UIF, medical and pension funds	63 734	33 161
Cellphone allowance	16 800	8 400
Leave	-	4 361
	919 079	369 883
26. Remuneration of councillors		
Mayor	809 156	296 277
Speaker	657 583	625 785
Councillors salaries	6 985 416	7 603 257
Councillors' allowances	3 080 412	3 073 387
	11 532 567	11 598 706
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.		
27. Vending management fee		
Management fees - third party	285 659	253 552
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.		
28. Depreciation and amortisation		
Property, plant and equipment	23 665 715	23 536 859
Investment property	5 377	576 873
Intangible assets	67 541	241 153
	23 738 633	24 354 885
29. Impairment loss		
Impairments		
Property, plant and equipment	2 316 302	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.		
30. Finance costs		
Interest expense	429 912	-
Service concession arrangements	2 105 886	3 801 999
	2 535 798	3 801 999

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
31. Debt impairment		
Debt impairment	(7 489 041)	26 485 045
32. Bulk purchases		
Electricity - Eskom	42 657 682	35 883 789
33. Contracted services		
Outsourced Services		
Burial Services	15 000	40 000
Catering Services	28 065	7 788
Cleaning Services	2 200	22 043
Fire Services	-	134 130
Litter Picking and Street Cleaning	-	101 336
Professional Staff	97 243	102 061
Security Services	-	374 364
Electrical	848 510	2 238 984
Consultants and Professional Services		
Business and Advisory	4 082 223	6 384 863
Legal Cost	2 903 203	1 297 478
Contractors		
Event Promoters	103 710	16 200
Graphic Designers	26 951	-
Maintenance of Buildings and Facilities	27 009	74 318
Maintenance of Equipment	49 193	37 750
Maintenance of Unspecified Assets	2 284 944	2 244 712
Safeguard and Security	414 245	194 084
	10 882 496	13 270 111
34. General expenses		
Advertising	174 784	233 132
Auditors remuneration	1 937 948	2 995 665
Bank charges	1 134 126	1 492 040
Consumables	206 029	294 773
Insurance	1 424 712	1 129 351
Fuel and oil	1 701 489	1 512 129
Postage and courier	47 095	2 580
Printing and stationery	549 645	339 505
Project maintenance costs	392 608	903 724
Vehicle license fees	381 647	446 616
Subscriptions and membership fees	1 495 991	1 303 632
Telephone and fax	8 498 687	5 633 455
Training	167 249	335 575
Electricity	2 832 823	4 543 628
Uniforms	119 552	1 229
Free basic electricity	517 049	25 455
Skills development levy	1 023 845	1 068 265
Other expenses	1 759 946	2 268 695
	24 365 225	24 529 449
35. Auditors' remuneration		
Fees	1 937 948	2 995 665

AMAHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
36. Cash generated from operations		
Surplus	3 291 532	5 556 837
Adjustments for:		
Depreciation and amortisation	23 738 633	24 354 885
(Loss) gain on sale of assets and liabilities	(58 906)	1 661 813
Fair value adjustments	(945 891)	(802 832)
Impairment deficit	2 316 302	1 215 365
Debt impairment	(7 489 041)	26 485 045
Movements in retirement benefit assets and liabilities	(5 640 317)	3 982 517
Movements in provisions	410 643	2 820 856
Changes in working capital:		
Inventories	18 376	130 758
Consumer debtors	6 790 781	(25 148 352)
Other receivables from non-exchange transactions	(21 085 304)	1 213 303
Payables from exchange transactions	14 359 796	20 209 784
VAT	3 650 819	(3 124 019)
Unspent conditional grants and receipts	2 981 099	(37 161 159)
Consumer deposits	1 665	38 603
	22 340 187	21 433 404

37. Financial instruments disclosure

Categories of financial instruments

2022

Financial assets

	At amortised cost	Total
Consumer debtors and other debtors	6 486 024	6 486 024
Other receivables from non-exchange transactions	31 103 478	31 103 478
Cash and cash equivalents	10 231 908	10 231 908
Long-term receivables	346 551	346 551
	48 167 961	48 167 961

Financial liabilities

	At amortised cost	Total
Finance lease obligation	191 482	191 482
Payables from exchange transactions	122 308 390	122 308 390
Unspent conditional grant	3 887 412	3 887 412
Consumer deposits	1 839 851	1 839 851
	128 227 135	128 227 135

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

37. Financial instruments disclosure (continued)

2021

Financial assets

	At amortised cost	Total
Consumer and other debtors	5 787 766	5 787 766
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
	<u>29 578 966</u>	<u>29 578 966</u>

Financial liabilities

	At amortised cost	Total
Finance lease obligation	16 244	16 244
Payables from exchange transactions	107 948 594	107 948 594
Unspent conditional grants	906 313	906 313
Consumer deposit	1 838 186	1 838 186
	<u>110 709 337</u>	<u>110 709 337</u>

38. Commitments

Authorised capital expenditure

Already contracted for but not provided for

• Property, plant and equipment	<u>16 680 304</u>	<u>23 982 121</u>
---------------------------------	-------------------	-------------------

Total capital commitments

Already contracted for but not provided for	<u>16 680 304</u>	<u>23 982 121</u>
---	-------------------	-------------------

Total commitments

Total commitments

Authorised capital expenditure	<u>16 680 304</u>	<u>23 982 121</u>
--------------------------------	-------------------	-------------------

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

AMAHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

39. Contingencies

2022

The total contingent liabilities for the year 2022 are R7 764 605 (Contingencies: R6 890 453 and Legal fees: R874 152) and their details are as follows:

- There's an order sought that requires the municipality to furnish all documents relating to the fire levy. (Case number: 1268/2022)
- The municipality has legal cases relating to claims for outstanding payments. Amounts claimed R5 322 783 legal fees R71 654. (Case numbers: 1797/2021, 454/2021, 3400/2019)
- The municipality is seeking an order declaring the standardisation policy unlawful. Legal fees R750 000. (Case number: 735/2022)
- There is an application for the restoration of electricity to the property which was disconnected by the municipality. (Case number: 108/2021)
- There's a claim for damages for a breach of contract. Amount claimed R603 670, legal fees R52 498. (Case number: 2389/2020)
- A unfair labour practice dispute to the SALGBC claiming total remuneration package upper limit, alternatively to be placed on task grade 19. Contingency: R264 000 (Case: A301)
- 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. (Case: A303)

2021

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

- Amahlathi / Iziqhamo 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.

AMAHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

39. Contingencies (continued)

Contingent assets

2022

2021

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

40. Related parties

Relationships

Accounting Officer

Councillors

Members of key management and close family members

Refer to accounting officers' report

Refer to general information page

Dr Z Shasha - Municipal Manager

B Mase - Acting Municipal Manager

I Sikhulu-Nqwena - Municipal Manger(Until July 2022)

L Manjingolo - Chief Financial Officer

M Bukubukwana - Director of Infrastructure

M Makunga - Director of Planning and

Development(Until March 2022)

N Nqulo - Director of Corporate Services

LSK Roji - Director of Community Services

Related party balances

Companies owned by people/spouses/partners/associate in the service

ICT Choice

Ebusha General Trading

-	1 068 823
428 000	143 900

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

40. Related parties (continued)

Remuneration of management

Management class: Councillors

2022

Name	Councillors' salaries	Telephone allowance	Travel allowance	3G card	Subsistence	Backpay	Total
O Mgungculu (Mayor)	370 177	26 259	123 392	2 316	-	-	522 144
NC Nogqayi (Speaker)	380 394	40 195	126 798	3 547	-	11 122	562 056
NP Mlahleki (Exco)	425 459	40 195	141 819	3 547	-	11 084	622 104
XM Tokwe (Exco)	338 256	40 195	111 168	3 547	-	5 175	498 341
T Balindlela Exco)	245 978	40 195	79 898	3 547	-	6 565	376 183
B Xongwana (Exco)	337 068	40 195	112 356	3 547	-	5 175	498 341
NA Kato-Manyika (Exco)	449 792	40 195	117 487	3 547	-	11 084	622 105
P Qaba	221 035	40 195	77 932	3 547	-	5 175	347 884
PM Onceya-Sauti	151 813	26 259	50 935	2 316	-	-	231 323
A Hobo	325 467	40 195	109 489	3 547	-	14 491	493 189
N Ngxakangxaka	187 292	40 195	60 847	3 547	-	5 175	297 056
RB Pickering	187 292	40 195	60 847	3 547	-	5 175	297 056
N Mbulawa	186 104	40 195	62 035	3 547	-	5 175	297 056
M Gantsho	121 580	26 259	40 530	2 317	-	-	190 686
NV Mjandana	121 580	26 259	40 527	2 317	-	-	190 683
NC Mkiva	186 104	40 195	62 035	3 547	-	5 175	297 056
ZA Qonto	121 582	26 259	40 527	2 317	-	-	190 685
N Nyangwa	121 618	26 259	40 491	2 317	-	-	190 685
N Charlie	121 582	26 259	40 527	2 317	-	-	190 685
NZ Klaas	186 104	40 195	62 035	3 547	-	5 175	297 056
M Busakwe	121 582	26 259	40 527	2 317	-	-	190 685
ZE Mfulana	121 582	26 259	40 527	2 317	-	-	190 685
X Neti	121 582	26 259	40 527	2 317	-	-	190 685
M Nqini	187 292	40 195	60 847	3 547	-	5 175	297 056
M Neku	121 582	26 259	40 527	2 317	-	-	190 685
NO Sidinana	121 582	26 259	40 527	2 317	-	-	190 685
PA Simandla	121 582	26 259	40 527	2 317	-	-	190 685

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

40. Related parties (continued)

N Ncevu	186 104	40 195	62 035	3 547	-	5 175	297 056
ME Maweni	121 582	26 259	40 527	2 317	-	-	190 685
N Salaze	121 582	26 259	40 527	2 317	-	-	190 685
N Pose	179 177	13 600	19 802	1 200	-	-	213 779
NP Tikazayo	64 157	13 600	19 802	1 200	-	-	98 759
SC Matini	62 969	13 600	20 990	1 200	-	-	98 759
DS Gxekwa	64 157	13 600	19 802	1 200	-	-	98 759
GD Mxosa	64 157	13 600	19 802	1 200	-	-	98 759
GP Noxeke	64 157	13 600	19 802	1 200	-	-	98 759
K Sandile	57 936	2 500	1 500	-	1 000	-	62 936
M Mjikelo	159 183	13 600	53 061	1 200	-	-	227 044
MN Ngcofe	64 157	13 600	19 802	1 200	-	-	98 759
N Monti	174 798	13 600	24 180	1 200	-	-	213 778
NJ Ulana	9 792	3 000	1 800	-	1 200	-	15 792
TR Desi	64 157	13 600	19 802	1 200	-	-	98 759
VW Tshaka	64 157	13 600	19 802	1 200	-	-	98 759
X Mngxaso	59 779	13 600	24 180	1 200	-	-	98 759
X Nqata	80 810	13 600	26 937	1 200	-	-	122 547
CT Ngxingolo	64 157	13 600	19 802	1 200	-	-	98 759
NA Nkonya-Mtati	64 157	13 600	19 802	1 200	-	-	98 759
Z Ngudle	46 512	2 500	1 500	-	1 000	-	51 512
SN Mdledle	46 512	2 500	1 500	-	1 000	-	51 512
EX Zakhe	46 512	2 500	1 500	-	1 000	-	51 512
NG Mekuto	51 408	2 500	1 500	-	1 000	-	56 408
AT Daka	42 432	2 500	1 500	-	1 000	-	47 432
	7 727 562	1 218 810	2 366 941	105 958	7 200	106 096	11 532 567

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

40. Related parties (continued)

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
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

AMAHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

40. Related parties (continued)

NC Nogqayi	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

Management class: Executive management

*Refer to note "Employee related costs" 25

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

41. 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 R3 953 274 and increase in depreciation in future periods by R 3 953 274.

42. Prior-year adjustments

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

Statement of financial position

2020

	Note	As previously reported	Correction of error	Restated
Consumer debtors		7 124 458	(425 697)	6 698 761
Receivables from non-exchange		10 950 459	706 712	11 657 171
Payables from exchange transactions		(90 693 206)	2 954 394	(87 738 812)
Accumulated surplus		(259 698 528)	(3 235 409)	(262 933 937)
		(332 316 817)	-	(332 316 817)

2021

	Note	As previously reported	Correction of error	Restated
Consumer debtors		6 432 515	(644 749)	5 787 766
Receivables from non-exchange		10 018 173	-	10 018 173
VAT receivable		2 535 476	707 748	3 243 224
Payables from exchange transactions		(106 121 710)	(1 826 885)	(107 948 595)
Accumulated surplus		(270 254 665)	1 763 886	(268 490 779)
		(357 390 211)	-	(357 390 211)

Statement of financial performance

2021

	Note	As previously reported	Correction of error	Restated
Service charges		49 582 506	(134 954)	49 447 552
Interest received - debtors		7 057 480	(486 297)	6 571 183
Property rates		20 796 268	(220 417)	20 575 851
General expenses		(20 371 816)	(4 157 633)	(24 529 449)
Surplus for the year		57 064 438	(4 999 301)	52 065 137

Cash flow statement

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

42. Prior-year adjustments (continued)

2021

	Note	As previously reported	Correction of error	Restated
Cash flow from operating activities				
Cash receipts from customers		55 351 358	(137 345)	55 214 013
Interest income		8 058 973	(486 298)	7 572 675
		<u>63 410 331</u>	<u>(623 643)</u>	<u>62 786 688</u>
Cash flow from investing activities				
Suppliers		<u>(84 723 298)</u>	<u>623 648</u>	<u>(84 099 650)</u>

2020

Consumer debtors - Reversal of refuse billed to customers that was agreed to be reversed due to services not being delivered.

Receivables from non-exchange – Reversal of billing of unknown accounts.

Payables from exchange transactions – Difference in the following accounts balance in trade payables versus the statements:

Special Investigating Unit
ECPG Province
WCA (Department of Labour)
SALGA
ESKOM (BULK)
AUDITOR - GENERAL

Accumulated surplus – Reversal of billing for refuse services not delivered and rates billed to unknown accounts.

2021

Consumer debtors - Reversal of refuse billed to customers that was agreed to be reversed due to services not being delivered.

Receivables from non-exchange - Reversal of billing of unknown accounts.

VAT receivables - VAT portion for the debtors adjustments for the reversal of refuse and raising of Amathole District Municipality billing.

Payables from exchange transactions - Raising prior year billing by Amathole District Municipality to the municipality.

Accumulated surplus - Reversal refuse due to service not delivered, reversal of billing unknown accounts and raising of Amathole District Municipality billing.

Service charges - Reversal of refuse billed to customers that was agreed to be reversed due to services not being delivered.

Interest received - debtors - Reversal of billing of unknown accounts. (Interest portion)

Property rates - Reversal of billing of unknown accounts.

General expenses - Raising prior year billing by Amathole District Municipality to the municipality.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
42. Prior-year adjustments (continued)		
Consumer debtors - 2020		
Opening balance	-	7 124 458
Adjustments made - reversal of refuse	-	(425 697)
Restated opening balance	-	6 698 761
Reversal of refuse billed to customers that was agreed to be reversed due to services not being delivered.		
Receivables from non-exchange - 2020		
Opening balance	-	10 950 459
Adjustments made - reversal of rates billed to unknown accounts	-	706 712
Restated opening balance	-	11 657 171
Reversal of billing of rates on unknown accounts.		
Payables from exchange transactions - 2020		
Opening balance	-	(90 693 206)
Adjustments made - differences from statements	-	2 954 394
Restated opening balance	-	(87 738 812)
Differences between statements and the balances in trade payables detected during audit. Difference in the Special Investigating Unit, ECPG Province, WCA (Department of Labour), SALGA, ESKOM (BULK) and AUDITOR - GENERAL.		
Consumer debtors		
Opening balance	-	6 432 515
Adjustments made - reversal of refuse	-	(644 749)
Restated opening balance	-	5 787 766
Reversal of refuse billed to customers that was agreed to be reversed due to services not being delivered.		
Receivables from non-exchange		
Opening balance	-	10 018 173
Adjustments made - reversal of rates billed to unknown accounts	-	(7 515 247)
Adjustments made - reversal impairment raised on unknown accounts	-	7 515 247
Restated opening balance	-	10 018 173
Reversal of billing of rates on unknown accounts.		
VAT receivables		
Opening balance	-	2 535 476
Adjustments made - VAT portion of refuse reversal	-	84 098
Adjustments made - VAT portion of Amathole District Municipality billing	-	623 645
Restated opening balance	-	3 243 219
Payables from exchange transactions		

AMAHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

	2022	2021
--	------	------

42. Prior-year adjustments (continued)

Opening balance	-	(106 121 710)
Adjustments made - Amathole District Municipality billing	-	(4 781 279)
Adjustments made - differences from statements coming from 2020 adjustment	-	2 954 394
Restated opening balance	-	(107 948 595)

Raising prior year billing by Amathole District Municipality to the municipality.

Service charges

Previously reported	-	49 582 506
Adjustments made - Reversal of refuse	-	(134 954)
Restated opening balance	-	49 447 552

Reversal of refuse billed to customers that was agreed to be reversed due to services not being delivered.

Interest received - debtors

Previously reported	-	7 057 480
Adjustments made - Reversal interest charged on on rates billed to unknown accounts	-	(486 297)
Restated opening balance	-	6 571 183

Property rates

Previously reported	-	20 796 268
Adjustments made - Reversal of rates billed to unknown accounts	-	(220 417)
Restated opening balance	-	20 575 851

Reversal of billing of rates on unknown accounts.

General expenses

Previously reported	-	(20 371 816)
Adjustments made - Amathole District Municipality billing	-	(4 157 633)
Restated opening balance	-	(24 529 449)

Raising prior year billing by Amathole District Municipality to the municipality.

43. 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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

43. 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	2022	2021
Consumer and other debtors	6 486 024	5 787 766
Receivables from non-exchange transactions	31 103 478	10 018 173
Cash and cash equivalents	10 231 908	13 426 476
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.

44. 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.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

44. 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.

45. Events after the reporting date

At reporting date the municipality reported a contingent asset of R92 481 183 arising from a civil claim brought to court by the Special Investigating Unit (SIU).

The SIU was seeking an order:

- declaring a hire purchase agreement (HPA) entered into between the first and third (Amahlathi Local Municipality) defendants on or about the 1 April 2014 to be unlawful and void ab initio; and
- Repayment of R92 487 183.12 made by the third defendant to the first defendant, pursuant to the said HPA.

On the 16th of November 2022, the court handed down a judgement dismissing the order with costs.

46. Unauthorised expenditure

Opening balance as previously reported	272 801 436	223 664 699
Add: Operating expenditure identified - current	15 300 782	47 104 413
Add: Capital expenditure identified - current	-	2 032 324
Closing balance	<u>288 102 218</u>	<u>272 801 436</u>

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

47. Fruitless and wasteful expenditure

Opening balance as previously reported	15 356 084	11 632 472
Add: Fruitless and wasteful expenditure identified - current	2 105 886	3 723 612
Less: Amount written off - current	(5 440 053)	-
Closing balance	<u>12 021 917</u>	<u>15 356 084</u>

Fruitless and wasteful expenditure is presented inclusive of VAT

Council committee (MPAC) performed investigations on the fruitless and wasteful expenditure as directed by council. This resulted in the approval of a write-off of R1 359 203. This amount relates to the fruitless and wasteful of the 2021/22 year-end.

There no other cases currently under investigation.

Amount written-off

After the council committee (MPAC) investigations, council adopted the council committee recommendation to write-off an amount of R 5 440 053 from the total fruitless and wasteful expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

48. Irregular expenditure

Opening balance	112 199 386	94 465 788
Add: Irregular Expenditure - current	17 044 012	17 733 598
Less: Amount written off - current	(14 317 455)	-
Closing balance	<u>114 925 943</u>	<u>112 199 386</u>

Irregular expenditure is presented inclusive of VAT

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021	
48. Irregular expenditure (continued)			
Incidents/cases identified/reported in the current year include those listed below:			
	Disciplinary steps taken/criminal proceedings		
Irregular expenditure on payroll	Due processes were not followed before standardisation of salaries were paid	15 408 182	14 570 057
Irregular expenditure on contracts	SCM processes were not followed	1 635 830	1 229 678
Irregular expenditure on Free Basic Electricity	The municipality paid for indigents that do not appear on the indigent register	-	1 933 863
		17 044 012	17 733 598

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 R- (2021:R1,874,704.96).

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

There are no cases currently under investigation.

Amount written-off

After the council committee (MPAC) investigations, council adopted the council committee recommendation to write-off an amount of R 14 317 455 from the total irregular expenditure amount as it was proven without reasonable doubt that the amount was not recoverable.

SCM processes not followed	14 317 455	-
----------------------------	------------	---

49. Additional disclosure in terms of section 125 of the Municipal Finance Management Act

Contributions to organised local government

Current year subscription / fee	1 483 137	1 301 962
Amount paid - current year	(1 483 137)	(1 301 962)
	-	-

Material electrical distribution losses

Add: Losses identified - current period	15 300 786	11 689 860
---	------------	------------

The municipality lost 9 931 800 kwhr (2021: 8,767,780 kwh) representing 34.52% (2021: 34.24%) of total bulk purchases of electricity from Eskom during the year. The losses are attributed to normal losses and illegal connections.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand	2022	2021
49. Additional disclosure in terms of section 125 of the Municipal Finance Management Act (continued)		
Audit fees		
Current year subscription / fee	2 525 012	2 995 665
Amount paid - current year	(2 525 012)	(2 995 665)
	<u>-</u>	<u>-</u>
PAYE and UIF		
Opening balance	(239 713)	-
Current year subscription / fee	20 247 690	23 823 658
Amount paid - current year	(20 007 977)	(24 063 371)
	<u>-</u>	<u>(239 713)</u>
Pension and Medical Aid Deductions		
Opening balance	10 062 551	7 403 733
Current year subscription / fee	31 974 546	34 458 343
Amount paid - current year	(42 037 097)	(31 799 525)
	<u>-</u>	<u>10 062 551</u>
VAT		
VAT receivable	<u>(407 600)</u>	<u>3 243 219</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

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2022:

30 June 2022	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
NA Kato-Manyika	99	237	336
P Qaba	145	600	745
N Salaze	796	34 190	34 986
	<u>1 040</u>	<u>35 027</u>	<u>36 067</u>

AMAHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

49. Additional disclosure in terms of section 125 of the Municipal Finance Management Act (continued)

Supply chain management regulations

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

Incident

Adapt IT	272 249	-
Babcock Africa Services	-	514 971
Bose Tyres	2 340	-
Buffalo Toyota	38 159	26 243
Cathcart Farms	-	50 708
Eastern Cape Umbrella Fire Protection	25 416	-
Futro General Trading	97 390	-
JD Strategic Investments	-	73 186
Jambase Security Services	-	191 250
Lexis Nexis	49 567	-
Lighting Structures	2 267	-
Management Integrity Evaluation	-	3 575
Meyers Motors	115 000	40 187
PG Glass Quenstown	14 687	-
PayDay Software Systems	51 635	-
Peugair Border CC	295 657	74 909
Rencor Engineering	423 824	59 369
SNR Electrical CC	324 296	612 791
SignWorx	-	28 000
Soma Workplace (Pty) Ltd	76 994	-
Square Deal Engineering	83 950	-
Stutt Delt Garage	68 080	256 098
Syco Machinery (Pty) Ltd	12 075	10 465
Titan Stutt	-	43 162
Universal Equipment	-	114 821
	1 953 586	2 099 735

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

50. 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. 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.

Segment surplus or deficit, assets and liabilities

2022

	Electricity	Solid waste removal	Total
Revenue			
Revenue from non-exchange transactions	-	353 335	353 335
Revenue from exchange transactions	38 857 438	10 855 560	49 712 998
Total segment revenue	38 857 438	11 208 895	50 066 333
Interest revenue			8 547 826
Property rates			22 178 071
Government grants and subsidies			149 722 243
Other unallocated revenue			9 064 213
Total revenue reconciling items			189 512 353
Entity's revenue			239 578 686
Expenditure			
Salaries and wages	2 369 161	12 352 806	14 721 967
Vending machine fee	285 659	-	285 659
Depreciation and amortisation	1 105 756	793 504	1 899 260
Bulk purchases	42 657 682	-	42 657 682
Contracted services	315 760	126 023	441 783
General expenses	35 923	172 776	208 699
Total segment expenditure	46 769 941	13 445 109	60 215 050
Total segmental surplus/(deficit)	(7 912 503)	(2 236 214)	(10 148 717)
Interest expense			(2 535 798)
Employee costs			(110 618 292)
Councillors remuneration			(11 532 567)
Depreciation and amortisation			(21 839 370)
Contracted services			(10 440 716)
Debt impairment			7 489 041
General expenses			(24 156 492)
Unallocated expenses			(2 437 876)
Total revenue reconciling items			189 512 353
Entity's surplus (deficit) for the period			3 291 566
Assets			
Segment assets	35 575 913	26 736 001	62 311 914
Unallocated assets			393 339 740
Total assets as per Statement of financial Position			455 651 654

AMAHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

50. Segment information (continued)

Liabilities

Segment liabilities	-	3 271 653	3 271 653
Unallocated liabilities			180 597 688
Total liabilities as per Statement of financial Position			183 869 341

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	11 980 145	49 447 552
Total segment revenue	37 467 407	19 113 918	56 581 325
Interest revenue			7 572 675
Property rates			20 575 853
Government grants and subsidies			183 739 503
Other unallocated revenue			13 052 507
Total revenue reconciling items			224 940 538
Entity's revenue			281 521 863
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)	(5 561 039)	5 518 367	(42 672)
Total revenue reconciling items			224 940 538
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			(24 283 539)
Unallocated expenses			(29 546 333)
Entity's surplus (deficit) for the period			5 556 840
Assets			
Segment assets	37 233 212	27 341 923	64 575 135
Unallocated assets			374 639 317
Total assets as per Statement of financial Position			439 214 452
Liabilities			
Segment liabilities	-	149 749	149 749
Unallocated liabilities			170 573 931
Total liabilities as per Statement of financial Position			170 723 680

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

50. Segment information (continued)

Information about geographical areas

The municipality operates throughout the Amahlathi Municipality in 3 towns in the Eastern Cape, ie., 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.

51. 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 059 061 (2021: R1 394 015).

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	147 854	2 341 283
Amounts received on behalf of the principal	4 746 284	2 388 995
Amounts transferred to the principal	(3 101 196)	(3 188 409)
Amounts recognised as revenue for services rendered	(1 059 061)	(1 394 015)
	<u>733 881</u>	<u>147 854</u>

All categories

Opening balance	147 854	2 341 283
Amounts received on behalf of the principal	4 746 284	2 388 995
Amounts transferred to the principal	(3 101 196)	(3 188 409)
Amounts recognised as revenue for services rendered	(1 059 061)	(1 394 015)
	<u>733 881</u>	<u>147 854</u>

Entity as principal

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

52. Budget differences

Material differences between budget and actual amounts

Statement of Financial Performance

FinPerf1

Variance not material.

FinPerf2

Signed lease agreement with Vodacom.

FinPerf3

Variance not material

FinPerf4

The municipalities DLTC and registration services were not fully operation for the last quarter of the financial year.

FinPerf5

Fire levy due to GRAP vs mSCOA classifications.

FinPerf6

Amount below projections due to operational challenges.

FinPerf7

Delay in finalisation of insurance claims due to other disasters in the country.

FinPerf8

Cash flow problems.

FinPerf9

Variance not material

FinPerf10

MIG grant mapped separately.

FinPerf11

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

FinPerf12

The municipalities DLTC and registration services were not fully operation for the last quarter of the financial year.

FinPerf13

Variance not material.

FinPerf14

Variance not material.

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

52. Budget differences (continued)

FinPerf15

New vendor that charged lower fees in the current year.

FinPerf16

Variance not material.

FinPerf17

Stopping of interest by Eskom for few months.

FinPerf18

Contracted service below projections in terms of price.

FinPerf19

Improvement in debt collection and write off of uncollectable debt.

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

Variance not material.

FinPos2

Write-off of uncollectable debt.

FinPos3

Improved collection of VAT.

FinPos4

Variance not material.

FinPos5

Unspent Grant for Waste due to late transfer.

FinPos6

Increase in Valuation.

FinPos7

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

52. Budget differences (continued)

Variance not material.

FinPos8

Variance not material.

FinPos9

Based on full verification conducted.

FinPos10

Variance not material

FinPos11

Variance not material.

FinPos12

New lease agreement.

FinPos13

Variance not material

FinPos14

Variance not material.

FinPos15

Variance not material.

FinPost16

Late transfer of waste grant.

FinPos17

Variance not material.

Cash Flow Statement

C1

Variance not material.

C2

Variance not material

C3

Cash flow problems

C4

AM AHLATHI LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

52. Budget differences (continued)

Variance not material

C5

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

C6

Stopping of interest by Eskom from the first 6 months of the financial year.

C7

Non implementation of internal projects due to cash flow.

C8

New lease agreement.