



**INXUBA YETHEMBA LOCAL MUNICIPALITY**  
(Registration number EC131)  
**ANNUAL FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 30 JUNE 2021**

# Inxuba Yethemba Local Municipality

(Registration number EC131)

Annual Financial Statements for the year ended 30 June 2021

## General Information

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|--|---|
| <b>Legal form of municipality</b>                  | EC131 - Local Municipality - The municipality's operations are governed by the Municipal Finance Management Act 56 of 2003, Municipal Structures Act 117 of 1998, Municipal Systems Act 32 of 2000; and various other acts and regulations.   |
| <b>Nature of business and principal activities</b> | Inxuba Yethemba Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act. The municipality performs the functions as set out in the Constitution. This in effect means that the municipality provides services like electricity and refuse removal to the community. Inxuba Yethemba Local Municipality also serves as an agent to the Provincial Department of Transport. |
| <b>Jurisdiction</b>                                | Cradock and Middelburg  |
| <b>Executive committee</b>                         |   |
| Executive Mayor                                    | NP Zonke  |
| Speaker  | L Davids  |
| Chief Whip   | MM Nortje   |
| Mayoral Committee                                  | MM Nortje<br>SV Masawe<br>G Mgeza   |
| Councillors  | M Desha<br>C Diamond<br>MH Featherstonehaugh<br>S Goniwe<br>S Holster<br>BL Lawens<br>R Lottering<br>ZA Mankamani<br>TM Msali<br>CA Sammy<br>HB Vorster<br>V Bene   |
| <b>Grading of local authority</b>                  | Three (3)   |
| <b>Registered office and business address</b>      | 1 J A Calata Street<br>Cradock<br>5880  |
| <b>Bankers</b>                                     | First National Bank   |
| <b>Auditors</b>                                    | Auditor - General of South Africa<br>Registered Auditors  |
| <b>Attorneys</b>                                   | Metcalf & Kie Attorneys<br>Nolte and Smit Attorneys<br>Minnaar and De Kock Attorneys<br>Zepe & Co Attorneys<br>Phillip and Mabona Attorneys   |

# Inxuba Yethemba Local Municipality

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|      |  |
|------|--|
| GRAP | Generally Recognised Accounting Practice |
| MFMA | Municipal Finance Management Act         |
| MIG  | Municipal Infrastructure Grant           |
| SARS | South African Revenue Service            |
| VAT  | Value-Added Tax                          |

# **Inxuba Yethemba Local Municipality**

(Registration number EC131)

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Officer's Responsibilities and Approval**

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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 GRAP (GRAP) and the MFMA.

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 loss 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 loss.

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

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

The internal auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements.

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

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**Mr MWM Mbebe**  
**Acting Municipal Manager**

# Inxuba Yethemba Local Municipality

(Registration number EC131)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Officer's Report

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The director submits his report for the year ended 30 June 2021.

### 1. Review of activities

#### Main business and operations

The municipality operates in South Africa.

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

Net deficit of the municipality was R 66 492 071 (2020: deficit R 57 877 268).

### 2. Going concern

The Covid-19 pandemic has continued in the 2021/2022 financial year with the second and third wave impacting the performance of the municipality due to lock down restrictions, limited staffing due to infections or close contact with infected people.

Despite these challenges, the municipality has continued to deliver on its mandate. For this reason, the municipality's fixed asset base has not been impaired because of downtime or lack of use. However, it is recognised that the pandemic has had an impact on its consumer base as is evidenced in the write off of debt in the current year. The principles for the impairment of receivables ensures that the value of receivables is appropriate to collection expectations.

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 958 246 700 and that the municipality's current liabilities exceed its current assets by R 239 447 527. The municipality has incurred a deficit of R 66 492 071 in the current financial year.

The High Court of South Africa entered a judgement against the municipality with regard to outstanding amounts due to Eskom in which the municipality is required to repay the debt in terms of the agreed payment plan.

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 from national and provincial government.

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year that would require disclosure in the annual financial statements.

### 4. Accounting policies

The annual financial statements have been prepared in accordance with the prescribed Standards of GRAP issued by the Accounting Standards Board as the prescribed framework by National Treasury, in accordance with Section 122(3) of the MFMA.

### 5. Accounting officer's interest in contracts

The accounting officer has no interests in contracts of the municipality.

# Inxuba Yethemba Local Municipality

(Registration number EC131)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Position as at 30 June 2021

| Figures in Rand                            | Note(s) | 2021                 | 2020<br>Restated*    |
|--|---------|----------------------|----------------------|
| <b>ASSETS</b>                              |         |                      |                      |
| <b>Current Assets</b>                      |         |                      |                      |
| Inventories                                | 3       | 7 070 741            | 5 813 341            |
| Receivables from exchange transactions     | 4       | 1 172 317            | 1 000 041            |
| Receivables from non-exchange transactions | 5       | 17 076 079           | 16 566 820           |
| VAT receivable - exchange transactions     | 6       | 18 451 471           | 10 257 868           |
| Consumer debtors                           | 7       | 24 814 041           | 23 417 041           |
| Cash and cash equivalents                  | 8       | 1 766 843            | 1 751 697            |
|  |         | <b>70 351 492</b>    | <b>58 806 808</b>    |
| <b>Non-Current Assets</b>                  |         |                      |                      |
| Investment property                        | 9       | 55 819 310           | 40 105 000           |
| Heritage assets                            | 10      | 16 019 999           | 3 025 000            |
| Property, plant and equipment              | 11      | 1 183 682 918        | 1 213 822 504        |
|  |         | <b>1 255 522 227</b> | <b>1 256 952 504</b> |
| <b>Total Assets</b>                        |         | <b>1 325 873 719</b> | <b>1 315 759 312</b> |
| <b>LIABILITIES</b>                         |         |                      |                      |
| <b>Current Liabilities</b>                 |         |                      |                      |
| Payables from exchange transactions        | 12      | 307 896 275          | 230 954 342          |
| Consumer deposits                          | 13      | 1 318 822            | 1 333 294            |
| Unspent conditional grants and receipts    | 14      | 583 922              | 280 741              |
|  |         | <b>309 799 019</b>   | <b>232 568 377</b>   |
| <b>Non-Current Liabilities</b>             |         |                      |                      |
| Employee benefit obligation                | 15      | 34 632 000           | 31 916 000           |
| Provisions                                 | 16      | 23 196 000           | 26 536 164           |
|  |         | <b>57 828 000</b>    | <b>58 452 164</b>    |
| <b>Total Liabilities</b>                   |         | <b>367 627 019</b>   | <b>291 020 541</b>   |
| <b>Net Assets</b>                          |         | <b>958 246 700</b>   | <b>1 024 738 771</b> |
| Accumulated surplus                        |         | 958 246 700          | 1 024 738 771        |
| <b>Total Net Assets</b>                    |         | <b>958 246 700</b>   | <b>1 024 738 771</b> |

\* See Note 55

# Inxuba Yethemba Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Performance

| Figures in Rand                                     | Note(s) | 2021                 | 2020<br>Restated*    |
|---|---------|----------------------|----------------------|
| <b>Revenue</b>                                      |         |                      |                      |
| <b>Revenue from exchange transactions</b>           |         |                      |                      |
| Service charges                                     | 17      | 124 878 448          | 120 709 209          |
| Rental of facilities and equipment                  | 18      | 1 382 521            | 1 995 760            |
| Agency services                                     | 19      | 2 377 709            | 1 825 515            |
| Other income  | 20      | 3 912 716            | 1 498 569            |
| Interest received                                   | 21      | 13 621 097           | 15 551 487           |
| Gain on disposal of assets and liabilities          | 22      | -                    | 738 474              |
| Fair value adjustments                              | 23      | 815 000              | -                    |
| Actuarial gains                                     | 24      | -                    | 7 569 475            |
| <b>Total revenue from exchange transactions</b>     |         | <b>146 987 491</b>   | <b>149 888 489</b>   |
| <b>Revenue from non-exchange transactions</b>       |         |                      |                      |
| <b>Taxation revenue</b>                             |         |                      |                      |
| Property rates                                      | 25      | 45 118 524           | 43 834 717           |
| <b>Transfer revenue</b>                             |         |                      |                      |
| Government grants & subsidies                       | 26      | 83 936 820           | 81 132 345           |
| Donations received                                  | 27      | 26 154 565           | -                    |
| Fines   | 28      | 46 328               | 208 792              |
| <b>Total revenue from non-exchange transactions</b> |         | <b>155 256 237</b>   | <b>125 175 854</b>   |
| <b>Total revenue</b>                                | 29      | <b>302 243 728</b>   | <b>275 064 343</b>   |
| <b>Expenditure</b>                                  |         |                      |                      |
| Employee related costs                              | 30      | (92 425 968)         | (92 480 406)         |
| Remuneration of councillors                         | 31      | (7 931 113)          | (8 254 672)          |
| Depreciation and amortisation                       | 32      | (61 495 691)         | (62 275 978)         |
| Finance costs                                       | 33      | (14 809 348)         | (19 222 133)         |
| Lease rentals on operating lease                    | 34      | (117 055)            | (135 902)            |
| Impairment of assets                                | 35      | (38 751 002)         | (30 073 239)         |
| Bad debts written off                               | 36      | (9 004 940)          | (4 412 174)          |
| Bulk purchases                                      | 37      | (80 998 169)         | (75 146 360)         |
| Contracted services                                 | 38      | (17 540 734)         | (14 079 538)         |
| Loss on disposal of assets and liabilities          | 22      | (10 908 283)         | -                    |
| Fair value adjustments                              | 23      | -                    | (714 000)            |
| Actuarial losses                                    | 24      | (482 791)            | -                    |
| General Expenses                                    | 39      | (29 637 346)         | (23 930 222)         |
| Repairs and maintenance                             | 40      | (4 633 359)          | (2 216 987)          |
| <b>Total expenditure</b>                            |         | <b>(368 735 799)</b> | <b>(332 941 611)</b> |
| <b>Deficit for the year</b>                         |         | <b>(66 492 071)</b>  | <b>(57 877 268)</b>  |

\* See Note 55

# Inxuba Yethemba Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Statement of Changes in Net Assets

| Figures in Rand                             | Accumulated surplus  | Total net assets     |
|---|----------------------|----------------------|
| Opening balance as previously reported      | 1 100 943 306        | 1 100 943 306        |
| Adjustments                                 |                      |                      |
| Correction of errors                        | (18 327 267)         | (18 327 267)         |
| <b>Balance at 01 July 2019 as restated*</b> | <b>1 082 616 039</b> | <b>1 082 616 039</b> |
| Changes in net assets                       |                      |                      |
| Deficit for the year                        | (57 877 268)         | (57 877 268)         |
| Total changes                               | (57 877 268)         | (57 877 268)         |
| <b>Restated balance at 30 June 2020</b>     | <b>1 024 738 771</b> | <b>1 024 738 771</b> |
| Changes in net assets                       |                      |                      |
| Deficit for the year                        | (66 492 071)         | (66 492 071)         |
| Total changes                               | (66 492 071)         | (66 492 071)         |
| <b>Balance at 30 June 2021</b>              | <b>958 246 700</b>   | <b>958 246 700</b>   |

\* See Note 55



# Inxuba Yethemba Local Municipality

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## Cash Flow Statement

| Figures in Rand   | Note(s) | 2021                       | 2020<br>Restated*          |
|---|---------|----------------------------|----------------------------|
| <b>Cash flows from operating activities</b>                 |         |                            |                            |
| <b>Receipts</b>   |         |                            |                            |
| Property rates and taxes                                    |         | 118 481 322                | 112 939 007                |
| Sale of goods and services                                  |         | 97 823 293                 | 107 884 147                |
| Interest income   |         | 2 561 013                  | 164 301                    |
| Other receipts  |         | 2 723 780                  | 4 565 330                  |
|   |         | <u>221 589 408</u>         | <u>225 552 785</u>         |
| <b>Payments</b>   |         |                            |                            |
| Employee costs  |         | (103 821 125)              | (109 619 339)              |
| Payments to suppliers                                       |         | (60 864 495)               | (70 341 246)               |
| Finance costs   |         | (9 873 510)                | (14 150 375)               |
|   |         | <u>(174 559 130)</u>       | <u>(194 110 960)</u>       |
| <b>Net cash flows from operating activities</b>             | 41      | <u><b>47 030 278</b></u>   | <u><b>31 441 825</b></u>   |
| <b>Cash flows from investing activities</b>                 |         |                            |                            |
| Purchase of property, plant and equipment                   | 11      | (47 414 383)               | (38 219 407)               |
| Proceeds from sale of property, plant and equipment         | 11      | 399 251                    | 1 052 030                  |
| <b>Net cash flows from investing activities</b>             |         | <u><b>(47 015 132)</b></u> | <u><b>(37 167 377)</b></u> |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |         | <b>15 146</b>              | <b>(5 725 552)</b>         |
| Cash and cash equivalents at the beginning of the year      |         | <u>1 751 697</u>           | <u>7 477 249</u>           |
| <b>Cash and cash equivalents at the end of the year</b>     | 8       | <u><b>1 766 843</b></u>    | <u><b>1 751 697</b></u>    |

\* See Note 55

# Inxuba Yethemba Local Municipality

(Registration number EC131)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand                                     | Approved budget      | Adjustments         | Final Budget         | Actual amounts       | Variance             | Reference |
|---|----------------------|---------------------|----------------------|----------------------|----------------------|-----------|
| <b>Statement of Financial Performance</b>           |                      |                     |                      |                      |                      |           |
| <b>Revenue</b>                                      |                      |                     |                      |                      |                      |           |
| <b>Revenue from exchange transactions</b>           |                      |                     |                      |                      |                      |           |
| Service charges                                     | 178 419 381          | 1 500 000           | <b>179 919 381</b>   | 124 878 448          | <b>(55 040 933)</b>  | N1        |
| Rental of facilities and equipment                  | 1 463 000            | 183 254             | <b>1 646 254</b>     | 1 382 521            | <b>(263 733)</b>     | Ins       |
| Agency services                                     | 6 800 000            | (2 800 000)         | <b>4 000 000</b>     | 2 377 709            | <b>(1 622 291)</b>   | N2        |
| Sundry fees and income                              | 5 747 500            | (2 347 500)         | <b>3 400 000</b>     | 3 912 716            | <b>512 716</b>       | Ins       |
| Interest received - investment                      | 34 799 000           | (20 500 000)        | <b>14 299 000</b>    | 13 621 097           | <b>(677 903)</b>     | Ins       |
| <b>Total revenue from exchange transactions</b>     | <b>227 228 881</b>   | <b>(23 964 246)</b> | <b>203 264 635</b>   | <b>146 172 491</b>   | <b>(57 092 144)</b>  |           |
| <b>Revenue from non-exchange transactions</b>       |                      |                     |                      |                      |                      |           |
| <b>Taxation revenue</b>                             |                      |                     |                      |                      |                      |           |
| Property rates                                      | 46 198 950           | (75 084)            | <b>46 123 866</b>    | 45 118 524           | <b>(1 005 342)</b>   | Ins       |
| <b>Transfer revenue</b>                             |                      |                     |                      |                      |                      |           |
| Government grants & subsidies                       | 73 576 780           | 7 261 220           | <b>80 838 000</b>    | 83 936 820           | <b>3 098 820</b>     | N3.1      |
| Public contributions and donations                  | -                    | -                   | -                    | 26 154 565           | <b>26 154 565</b>    | N3.2      |
| Fines, Penalties and Forfeits                       | 270 142              | -                   | <b>270 142</b>       | 46 328               | <b>(223 814)</b>     | Ins       |
| <b>Total revenue from non-exchange transactions</b> | <b>120 045 872</b>   | <b>7 186 136</b>    | <b>127 232 008</b>   | <b>155 256 237</b>   | <b>28 024 229</b>    |           |
| <b>Total revenue</b>                                | <b>347 274 753</b>   | <b>(16 778 110)</b> | <b>330 496 643</b>   | <b>301 428 728</b>   | <b>(29 067 915)</b>  |           |
| <b>Expenditure</b>                                  |                      |                     |                      |                      |                      |           |
| Employee related costs                              | (95 850 000)         | 2 850 000           | <b>(93 000 000)</b>  | (92 425 968)         | <b>574 032</b>       | Ins       |
| Remuneration of councillors                         | (8 486 784)          | 662 583             | <b>(7 824 201)</b>   | (7 931 113)          | <b>(106 912)</b>     | Ins       |
| Depreciation and amortisation                       | (66 636 720)         | -                   | <b>(66 636 720)</b>  | (61 495 691)         | <b>5 141 029</b>     | N4        |
| Impairment loss/ Reversal of impairments            | -                    | -                   | -                    | (38 751 002)         | <b>(38 751 002)</b>  | N5        |
| Finance costs                                       | (5 000 000)          | 2 500 000           | <b>(2 500 000)</b>   | (14 809 348)         | <b>(12 309 348)</b>  | N6        |
| Lease rentals on operating lease                    | -                    | -                   | -                    | (117 055)            | <b>(117 055)</b>     | Ins       |
| Bad debts written off                               | (2 684 316)          | -                   | <b>(2 684 316)</b>   | (9 004 940)          | <b>(6 320 624)</b>   | N7        |
| Bulk purchases                                      | (55 176 000)         | 20 176 000          | <b>(35 000 000)</b>  | (80 998 169)         | <b>(45 998 169)</b>  | N8        |
| Contracted Services                                 | (8 500 000)          | 500 000             | <b>(8 000 000)</b>   | (17 540 734)         | <b>(9 540 734)</b>   | N9        |
| General Expenses                                    | (21 000 000)         | 13 000 000          | <b>(8 000 000)</b>   | (29 637 346)         | <b>(21 637 346)</b>  | N10       |
| Repairs and maintenance                             | (19 150 900)         | 7 000 000           | <b>(12 150 900)</b>  | (4 633 359)          | <b>7 517 541</b>     | N11       |
| <b>Total expenditure</b>                            | <b>(282 484 720)</b> | <b>46 688 583</b>   | <b>(235 796 137)</b> | <b>(357 344 725)</b> | <b>(121 548 588)</b> |           |
| <b>Operating deficit</b>                            | <b>64 790 033</b>    | <b>29 910 473</b>   | <b>94 700 506</b>    | <b>(55 915 997)</b>  | <b>(150 616 503)</b> |           |
| Loss on disposal of assets and liabilities          | 4 752 000            | -                   | <b>4 752 000</b>     | (10 908 283)         | <b>(15 660 283)</b>  | N12       |
| Fair value adjustments                              | -                    | -                   | -                    | 815 000              | <b>815 000</b>       |           |
| Actuarial gains/losses                              | -                    | -                   | -                    | (482 791)            | <b>(482 791)</b>     | Ins       |
|   | <b>4 752 000</b>     | -                   | <b>4 752 000</b>     | <b>(10 576 074)</b>  | <b>(15 328 074)</b>  |           |
| <b>Deficit before taxation</b>                      | <b>69 542 033</b>    | <b>29 910 473</b>   | <b>99 452 506</b>    | <b>(66 492 071)</b>  | <b>(165 944 577)</b> |           |

# Inxuba Yethemba Local Municipality

(Registration number EC131)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand  | Approved budget      | Adjustments      | Final Budget         | Actual amounts       | Variance             | Reference |
|--|----------------------|------------------|----------------------|----------------------|----------------------|-----------|
| <b>Statement of Financial Position</b>                         |                      |                  |                      |                      |                      |           |
| <b>Assets</b>  |                      |                  |                      |                      |                      |           |
| <b>Current Assets</b>  |                      |                  |                      |                      |                      |           |
| Inventories  | 1 054 176            | -                | 1 054 176            | 7 070 741            | 6 016 565            | N13       |
| Receivables from exchange transactions                         | 3 639 138            | -                | 3 639 138            | 1 172 317            | (2 466 821)          | N14       |
| Receivables from non-exchange transactions                     | -                    | -                | -                    | 17 076 079           | 17 076 079           | N15       |
| VAT receivable   | -                    | -                | -                    | 18 451 471           | 18 451 471           | N16       |
| Consumer debtors   | 87 764 018           | -                | 87 764 018           | 24 814 041           | (62 949 977)         | N15       |
| Cash and cash equivalents                                      | 107 595 370          | 1 960 211        | 109 555 581          | 1 766 843            | (107 788 738)        | N17       |
|  | <b>200 052 702</b>   | <b>1 960 211</b> | <b>202 012 913</b>   | <b>70 351 492</b>    | <b>(131 661 421)</b> |           |
| <b>Non-Current Assets</b>                                      |                      |                  |                      |                      |                      |           |
| Investment property  | 35 991 151           | -                | 35 991 151           | 55 819 310           | 19 828 159           | N18       |
| Property, plant and equipment                                  | 1 339 533 382        | -                | 1 339 533 382        | 1 183 682 918        | (155 850 464)        | N18       |
| Heritage assets  | 2 225 000            | -                | 2 225 000            | 16 019 999           | 13 794 999           | N18       |
|  | <b>1 377 749 533</b> | <b>-</b>         | <b>1 377 749 533</b> | <b>1 255 522 227</b> | <b>(122 227 306)</b> |           |
| <b>Total Assets</b>  | <b>1 577 802 235</b> | <b>1 960 211</b> | <b>1 579 762 446</b> | <b>1 325 873 719</b> | <b>(253 888 727)</b> |           |
| <b>Liabilities</b>   |                      |                  |                      |                      |                      |           |
| <b>Current Liabilities</b>                                     |                      |                  |                      |                      |                      |           |
| Payables from exchange transactions                            | 181 875 352          | -                | 181 875 352          | 307 896 275          | 126 020 923          | N19       |
| Consumer deposits  | -                    | -                | -                    | 1 318 822            | 1 318 822            | Ins       |
| Unspent conditional grants and receipts                        | -                    | -                | -                    | 583 922              | 583 922              | Ins       |
| Provisions   | 52 100 637           | -                | 52 100 637           | -                    | (52 100 637)         | N20       |
|  | <b>233 975 989</b>   | <b>-</b>         | <b>233 975 989</b>   | <b>309 799 019</b>   | <b>75 823 030</b>    |           |
| <b>Non-Current Liabilities</b>                                 |                      |                  |                      |                      |                      |           |
| Employee benefit obligation                                    | -                    | -                | -                    | 34 632 000           | 34 632 000           | N20       |
| Provisions   | 61 725 545           | -                | 61 725 545           | 23 196 000           | (38 529 545)         | N20       |
|  | <b>61 725 545</b>    | <b>-</b>         | <b>61 725 545</b>    | <b>57 828 000</b>    | <b>(3 897 545)</b>   |           |
| <b>Total Liabilities</b>                                       | <b>295 701 534</b>   | <b>-</b>         | <b>295 701 534</b>   | <b>367 627 019</b>   | <b>71 925 485</b>    |           |
| <b>Net Assets</b>  | <b>1 282 100 701</b> | <b>1 960 211</b> | <b>1 284 060 912</b> | <b>958 246 700</b>   | <b>(325 814 212)</b> |           |
| <b>Net Assets</b>  |                      |                  |                      |                      |                      |           |
| <b>Net Assets Attributable to Owners of Controlling Entity</b> |                      |                  |                      |                      |                      |           |
| <b>Reserves</b>  |                      |                  |                      |                      |                      |           |
| Accumulated surplus  | 1 282 100 701        | 1 960 211        | 1 284 060 912        | 958 246 700          | (325 814 212)        |           |

# Inxuba Yethemba Local Municipality

(Registration number EC131)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts | Variance | Reference |
|-----------------|-----------------|-------------|--------------|----------------|----------|-----------|
|-----------------|-----------------|-------------|--------------|----------------|----------|-----------|

### Cash Flow Statement

#### Cash flows from operating activities

##### Receipts

|                            |                    |                    |                    |                    |                     |     |
|----------------------------|--------------------|--------------------|--------------------|--------------------|---------------------|-----|
| Property rates and taxes   | 118 202 412        | (83 389)           | <b>118 119 023</b> | 118 481 322        | <b>362 299</b>      | N21 |
| Sale of goods and services | 160 689 900        | -                  | <b>160 689 900</b> | 97 823 293         | <b>(62 866 607)</b> | N21 |
| Interest income            | -                  | -                  | -                  | 2 561 013          | <b>2 561 013</b>    | N21 |
| Other receipts             | 12 524 142         | (3 947 401)        | <b>8 576 741</b>   | 2 723 780          | <b>(5 852 961)</b>  | N21 |
|                            | <b>291 416 454</b> | <b>(4 030 790)</b> | <b>287 385 664</b> | <b>221 589 408</b> | <b>(65 796 256)</b> |     |

##### Payments

|  |                      |   |                      |                      |                    |     |
|--|----------------------|---|----------------------|----------------------|--------------------|-----|
| Payments to suppliers and employee costs | (180 513 061)        | - | <b>(180 513 061)</b> | (164 685 620)        | <b>15 827 441</b>  | N22 |
| Finance costs                            | (5 000 000)          | - | <b>(5 000 000)</b>   | (9 873 510)          | <b>(4 873 510)</b> | N22 |
| Transfers and grants                     | (3 000 000)          | - | <b>(3 000 000)</b>   | -                    | <b>3 000 000</b>   | N22 |
|  | <b>(188 513 061)</b> | - | <b>(188 513 061)</b> | <b>(174 559 130)</b> | <b>13 953 931</b>  |     |

|   |                    |                    |                   |                   |                     |  |
|---|--------------------|--------------------|-------------------|-------------------|---------------------|--|
| <b>Net cash flows from operating activities</b> | <b>102 903 393</b> | <b>(4 030 790)</b> | <b>98 872 603</b> | <b>47 030 278</b> | <b>(51 842 325)</b> |  |
|---|--------------------|--------------------|-------------------|-------------------|---------------------|--|

#### Cash flows from investing activities

|   |              |            |                     |              |                     |     |
|---|--------------|------------|---------------------|--------------|---------------------|-----|
| Purchase of property, plant and equipment           | (40 024 001) | 20 301 001 | <b>(19 723 000)</b> | (47 414 383) | <b>(27 691 383)</b> | N23 |
| Proceeds from sale of property, plant and equipment | 43 452 770   | -          | <b>43 452 770</b>   | 399 251      | <b>(43 053 519)</b> | N24 |

|   |                  |                   |                   |                     |                     |  |
|---|------------------|-------------------|-------------------|---------------------|---------------------|--|
| <b>Net cash flows from investing activities</b> | <b>3 428 769</b> | <b>20 301 001</b> | <b>23 729 770</b> | <b>(47 015 132)</b> | <b>(70 744 902)</b> |  |
|---|------------------|-------------------|-------------------|---------------------|---------------------|--|

|  |             |            |                    |        |                      |  |
|--|-------------|------------|--------------------|--------|----------------------|--|
| Net increase/(decrease) in cash and cash equivalents | 106 332 162 | 16 270 211 | <b>122 602 373</b> | 15 146 | <b>(122 587 227)</b> |  |
|--|-------------|------------|--------------------|--------|----------------------|--|

|  |             |   |                    |           |                      |  |
|--|-------------|---|--------------------|-----------|----------------------|--|
| Cash and cash equivalents at the beginning of the year | 109 875 590 | - | <b>109 875 590</b> | 1 751 697 | <b>(108 123 893)</b> |  |
|--|-------------|---|--------------------|-----------|----------------------|--|

|   |                    |                   |                    |                  |                      |  |
|---|--------------------|-------------------|--------------------|------------------|----------------------|--|
| <b>Cash and cash equivalents at the end of the year</b> | <b>216 207 752</b> | <b>16 270 211</b> | <b>232 477 963</b> | <b>1 766 843</b> | <b>(230 711 120)</b> |  |
|---|--------------------|-------------------|--------------------|------------------|----------------------|--|

# Inxuba Yethemba Local Municipality

(Registration number EC131)

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

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### Reasons for material variances:

N1: Service charges: The budget for services was overstated. The average revenue for the past three years amounts to approximately R113M.

N2: Agency fees: Agency fees are a product of the number of traffic request coming in from the public. During COVID, extensions were granted for the renewal of certain licenses resulting in a drop in revenue.

N3.1: Government grants & subsidies: The municipality's MIG allocation was increased in the current year, which was not anticipated in the budget.

N3.2: Property, plant and equipment donations received: The Department of Tourism made donation of fixed property. This donation was not expected at the time of preparing the budget.

N4: Depreciation: The budget is a product of the condition assessments and the residual value estimates at year-end. Budgeted depreciation is based on the previous financial year's fixed asset register.

N5: Impairments: The budget did not include the cost of the provision for impairment of receivables.

N6: Finance charges: The budgeted cash flow reflected sufficient funds to settle its liabilities timeously, however the cash flow challenges were experienced and interest on outstanding creditors was incurred.

N7: Bad debt write off: The budget did not anticipate the economic impact of COVID on the local community and the extent of the write off of debt as a consequence thereof.

N8: Bulk purchases: The budget for bulk purchases was incorrect.

N9: Contracted services: The budget for contracted services was incorrect.

N10: General expenditure: The budget for general expenditure was incorrect.

N11: Repairs & maintenance: The budget for repairs & maintenance was incorrect.

N12: Gain on disposal of assets: In the current year, a layer of road was scrapped and this was not anticipated in the budget.

N13: Inventories: The budget was prepared before the 19/20 financial year was finalised. In this year, a decision was taken to reclassify certain tracts of land as inventory. The budget did not include this reclassification.

N14: Receivables from exchange transactions: There was no budget for impairment and for this reason, the budgeted balance is greater than actual.

N15: Receivables from non-exchange transactions and consumer debtors: These balances are budgeted one balance. There was no budget for impairment and for this reason, the budgeted balance is greater than actual.

N16: VAT receivable: There was no budget for VAT receivable.

N17: Cash and cash equivalents: The movement and resultant balance is a product of the variances notes in working capital and capital expenditure.

N18: Non-current assets: The budget is based on outdated fixed asset registers.

N19: Trade and other payables including consumer deposits: There is no separate budget for consumer deposits. Due to cash flow challenges, the municipality has been unable to settle all of its accounts and as a result the balance is increasing. A significant cash surplus was budgeted for which did not materialise.

N20: Provision and post-employment obligations: The budget for provision is a consolidated balance, which is split between current and non-current obligations. The actual provision is dependent on a number of market variables, which differed at year-end in comparison to the values anticipated when the budget was prepared.

N21: Receipts: Due to the socio-economic situation within the municipal area compounded by the impact of the Covid pandemic, the collection rate was significantly lower than anticipated. In addition, current year and previous budgeted revenues were not realised.

## **Inxuba Yethemba Local Municipality**

(Registration number EC131)

Annual Financial Statements for the year ended 30 June 2021

### **Statement of Comparison of Budget and Actual Amounts**

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N22: Payments: Due to cash flow challenges arising from the drop in collections, the municipality was unable to settle all its current and prior year obligations.

N23: Purchase of PPE: The budget only included spending capital project to the extent of the capital grant funding.

N24: Disposal of PPE: The sale of assets in the budget did not materialise in part because there has been an extended delay in the appointment of an auctioneer.

# Inxuba Yethemba Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

The annual financial statements have been prepared in accordance with the Standards of GRAP, issued by the Accounting Standards Board in accordance with Section 122(3) of the MFMA.

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. All figures have been rounded to the nearest 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 Going concern assumption

On 30 January 2020, following the reporting of a cluster of cases in China, the World Health Organization ("WHO") declared the outbreak of Covid-19 a "Public Health Emergency of International Concern". Since then, more cases have been diagnosed, in a number of countries across the globe. Strict measures have been taken and a number of policies have been imposed by a number of governments to contain the spread of this new virus that will have economic impact. Gradually more information has become available leading the WHO to declare Covid-19 as a global pandemic on 11 March 2020.

The impact of the virus and the resulting economic impact of individual government measures and policies is a non-adjusting event. Given the unpredictable outcome of this virus and the resulting policies for containment, the impact on the operating activities of the municipality and the recoverability of its assets will continue to be assessed during the course of the coming financial year.

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.

#### 1.2 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:

##### Receivables from exchange and non-exchange transactions

The municipality assesses its financial assets 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 judgments as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

##### Impairment testing

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

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

# Inxuba Yethemba Local Municipality

(Registration number EC131)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

The municipality considers the following events or circumstances as possible indications that an impairment may have occurred:

- Property, plant and equipment that are damaged, where an asset's market value has declined significantly more than would be expected as a result of the passage of time, obsolescence, assets that become idle, plans to dispose of an asset before the previously expected date, plans to discontinue or restructure the operation to which the asset belongs, a decision to halt the construction of the asset before it is complete or in a usable condition or where internal reporting indicates that the economic performance of an asset is, or will be worse than expected.
- Damaged or derelict buildings and heritage assets.

#### 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 16 - Provisions.

Provisions are measured at the best estimate of the expenditure required to settle the obligation at the reporting date and are discounted to its present value where the effect is material.

#### Provision for rehabilitation of landfill sites

The municipality has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the net present value of cost.

The uncertainties and assumptions attached to this provision are listed as follows:

- The landfill closure designs are based on current day legislation (Minimum Requirements for Waste Disposal by Landfill, Second Edition 1998) and current permits. Should the Minister require for the sites to be relicensed or brought in line with new legislation, the closure requirements may be affected which may in turn affect the costing analysis.
- It is assumed that clean sand and clay is available locally (nearby / alongside / within) to the site and no importation (long-distance haulage) of materials is required. Material on or close to site is sufficient for closure.
- It is assumed that the general public have not requested a specific final shape or end use for the landfill sites.

#### 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 government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 15.

#### Useful lives of property, plant and equipment

The municipality depreciates its property, plant and equipment over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives.

The useful lives of assets are based on management's estimation. Management considered 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 is 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.



# Inxuba Yethemba Local Municipality

(Registration number EC131)

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

At each reporting date management assesses the assets for any indication that the municipality's expectations about the residual values and the useful lives of assets have changed since the preceding reporting date. If any such indication exists, the municipality shall revise the expected useful life and / or residual value accordingly.

#### **Determination of fair value for property, plant and equipment**

In the absence of an invoice to support the purchase of an asset, those assets have been brought into account using the fair value. Fair value was determined by obtaining the market value of the asset in the current financial year and adjusting the market value using CPI to establish the current replacement cost at measurement date, namely 1 July 2019. The current replacement cost was adjusted to take into account the condition and age of the asset at measurement date using the depreciated replacement cost method.

#### **Determination of fair value for heritage assets**

In the absence of an invoice to support the purchase of an asset, those assets have been brought into account using the fair value. Fair value was determined by obtaining the market value of the asset in the current financial year and adjusting the market value using the consumer price index to establish the current replacement cost at measurement date, namely 1 July 2019. Current replacement cost was used and adjusted (if required) after an assessment for impairment in terms of the heritage assets accounting policy.

### 1.3 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.

#### **Fair value**

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or loss for the period in which it arises.

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

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

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

# Inxuba Yethemba Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.4 Property, plant and equipment

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

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

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

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

Where an 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.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management. Items such as spare parts, standby equipment and servicing equipment are recognised when they meet the definition of property, plant and equipment.

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

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

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

---

| Item                   | Average useful life |
|------------------------|---------------------|
| Land                   | Indefinite          |
| Buildings              | 20 to 30 years      |
| Landfill sites         | 30 years            |
| Plant and machinery    | 2 to 15 years       |
| Furniture and fixtures | 2 to 20 years       |
| Motor vehicles         | 3 to 10 years       |
| Office equipment       | 2 to 10 years       |
| Computer equipment     | 2 to 10 years       |
| Infrastructure         | 4 to 80 years       |
| Community              | 10 to 50 years      |

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.

# Inxuba Yethemba Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

In assessing whether there is any indication that the expected useful life of an asset has changed, the municipality considers the following indicators:

- The composition of the asset changed during the reporting period, i.e. the significant components of the asset changed.
- The use of the asset has changed, because of the following:
  - The municipality has changed the manner in which the asset is used.
  - The municipality has changed the utilisation rate of the asset.
  - The municipality has made a decision to dispose of the asset in a future reporting period(s) and that this decision will change the expected period over which the asset will be used.
  - Technological, environmental, commercial or other changes that occurred during the reporting period that have, or will, change the use of the asset.
  - Legal or similar limits placed on the use of the asset have changed.
  - The asset was idle or retired from use during the reporting period.
- The asset is approaching the end of its previously expected useful life.
- Planned repairs and maintenance on, or refurbishments of, the asset and / or its significant components either being undertaken or delayed.
- Environmental factors, e.g. increased rainfall or humidity, adverse changes in temperatures or increased exposure to pollution.
- There is evidence that the condition of the asset improved or declined based on assessments undertaken during the reporting period.
- The asset is assessed as being impaired.
- Other indicators which may indicate a change in useful life or residual value of the asset.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. The municipality capitalise project expenditure as work in progress as and when the expenditure occurs. Upon completion of the project, the project assets are componentised and transferred to the relevant category of property, plant and equipment, investment property or heritage assets.

The depreciation charge for each period is recognised in surplus or loss 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 loss 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.

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 40).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11).

### 1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

If the related asset is measured using the cost model:

- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or loss; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

# Inxuba Yethemba Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.6 Heritage assets

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

#### Recognition

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

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

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

#### Impairment

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

#### 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 loss when the item is derecognised. The gain or loss arising from the derecognition of a heritage asset is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

### 1.7 Financial instruments

#### Classification

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

##### Class

Receivables from non-exchange transactions  
Receivables from exchange transactions  
Cash and cash equivalents  
Consumer debtors from exchange transactions

##### Category

Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost  
Financial asset measured at amortised cost

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

##### Class

Payables from exchange transactions  
Unspent conditional grants and receipts  
Consumer deposits  
Bank overdraft

##### Category

Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost  
Financial liability measured at amortised cost

# Inxuba Yethemba Local Municipality

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Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1.7 Financial instruments (continued)

#### Initial recognition

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

The municipality recognises financial assets using trade date accounting.

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

The municipality 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.

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

The municipality measures all financial assets and financial liabilities after initial recognition at amortised cost.

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

#### Gains and losses

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

#### Impairment and uncollectibility of financial assets

The municipality 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. The municipality first assesses individually significant debtors for impairment and will then use a portfolio approach on the remaining debtors.

Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation.

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

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

#### Presentation

Gains and losses relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or loss.

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the municipality 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.

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

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### 1.7 Financial instruments (continued)

The municipality derecognises a financial asset only when:

- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the municipality, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the 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 municipality :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

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

#### Financial liabilities

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

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or loss.

### 1.8 Statutory receivables

#### Identification

Statutory receivables are receivables that arise from legislation, supporting regulations, or similar means, and require settlement by another municipality 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.

#### 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 municipality 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.

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### 1.8 Statutory receivables (continued)

#### 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.

#### 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 municipality 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 through the use of an allowance account. The amount of the losses is recognised in surplus or loss.

In estimating the future cash flows, a 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 municipality 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 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 loss.

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### 1.8 Statutory receivables (continued)

#### 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 municipality:
  - 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 municipality 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 loss in the period of the transfer.

### 1.9 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 municipality assesses the classification of each element separately.

#### 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.

Income for leases is disclosed under revenue in statement of financial performance. The difference between the amounts recognised as income and the contractual receipts are recognised as an operating lease asset or liability.

#### 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.

### 1.10 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.



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### 1.10 Inventories (continued)

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

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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

### 1.11 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.

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.

Refer to note 1.12 for the accounting treatment of non-cash generating assets.

#### 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. The recoverable amount is considered to be the higher of the value in use and the fair value less costs to sell.

#### Value in use

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

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

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

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

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

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or loss.

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

After the recognition of an impairment loss, 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.

#### 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.

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

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 municipality 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.

#### 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 municipality 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 loss.

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.

### 1.12 Impairment of non-cash-generating assets

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

Refer to note 1.11 for the accounting treatment of cash-generating assets.

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

#### 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. The recoverable service amount is considered to be the higher of the non-cash generating asset's value in use and the fair value less costs to sell.

#### Value in use

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

#### 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.

#### Restoration cost approach

Restoration cost is the cost of restoring the service potential of an asset to its pre-impaired level. The present value of the remaining service potential of the asset is determined by subtracting the estimated restoration cost of the asset from the current cost of replacing the remaining service potential of the asset before impairment. The latter cost is determined as the depreciated reproduction or replacement cost of the asset, whichever is lower.

#### 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 loss.

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.

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### 1.12 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 loss.

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

### 1.13 Employee benefits

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

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

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

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

#### Long-service award

The municipality has an obligation to provide long-service award benefits to all of its employees. According to the rules of the long-service award scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

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### 1.13 Employee benefits (continued)

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

Defined contribution plans are post-employment benefit plans under which an municipality pays fixed contributions into a separate municipality (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.

When an employee has rendered service to the municipality during a reporting period, the municipality recognises the contribution payable to a defined contribution plan in exchange for that service:

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

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects 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 obligation.

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

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

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

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

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

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

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

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

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### 1.13 Employee benefits (continued)

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

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

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

The municipality values the present obligation using a discount rate that reflects the time value of money. This is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, the municipality uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

### 1.14 Provisions and contingencies

Provisions are recognised when:

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

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date. Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation. The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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

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

A provision is used only for expenditures for which the provision was originally recognised. Provisions are not recognised for future operating surplus. If a municipality 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 43.

### 1.15 Commitments

Items are classified as commitments when the municipality has committed itself to future transactions that will normally result in the outflow of cash. These contractual obligations are not recognised in the statement of financial position. Refer to note 42 for commitments the municipality are required to honour.

### 1.16 Revenue from exchange transactions

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

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### 1.16 Revenue from exchange transactions (continued)

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.

#### Rendering of services

Service charges relating to solid waste, sanitation and sewage are levied in terms of the approved tariffs.

Service charges relating to electricity are based on consumption. Meters are normally read on a monthly basis and are recognised as revenue when invoiced. Where meters are not read monthly, provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue 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. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

#### Interest and rental of facilities and equipment

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Revenue from the rental of facilities and equipment is recognised on a straight-line basis over the term of the lease agreement.

### 1.17 Revenue from non-exchange transactions

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

#### Recognition

Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

An inflow of resources from a non-exchange transaction, that meets the definition of an asset shall be recognised as an asset when it is probable that the future economic benefits or service potential associated with the asset will flow to the municipality and the fair value of the asset can be measured reliably. The asset shall be recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow. A present obligation arising from a non-exchange transaction that meets the definition of a liability will be recognised as a liability when it is probable that an outflow of economic benefit will be required to settle the obligation and a reliable estimate of the amount can be made.



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

#### **Measurement**

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

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

#### **Taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

#### **Government Grants and receipts**

Equitable share allocations are recognised in revenue at the start of the financial year if no time-based restrictions exist.

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, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised. Once the conditions are met, revenue is recognised and the liability is reduced. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related conditions are recognised in the statement of financial performance in the period in which they become receivable.

#### **Fines**

The municipality has two types of fines: spot fines and summonses. There is uncertainty regarding the probability of the flow of economic benefits or service potential in respect of spot fines as these are usually not given directly to an offender. Further legal processes have to be undertaken before the spot fine is enforceable. In respect of summonses the public prosecutor can decide whether to waive the fine, reduce it or prosecute for non-payment by the offender. An estimate is made for the revenue due to the municipality from spot fines and summonses based on past experience of amounts collected. Where a reliable estimate cannot be made of revenue from summonses, the revenue from summonses is recognised when the public prosecutor pays over to the municipality the cash actually collected on summonses issued.

### **1.18 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).

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

#### 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 the 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, otherwise it is the principle.

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.

#### Recognition

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.

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

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

### 1.19 Borrowing costs

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

### 1.20 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year and / or restated for prior period adjustments.

### 1.21 Unauthorised expenditure

Unauthorised expenditure includes:

- Overspending of the total amount appropriated in the municipality's approved budget.
- Overspending of the total amount appropriated for a vote in the approved budget.
- Expenditure from a vote unrelated to the department or functional area covered by the vote.
- Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose.
- Spending of an allocation otherwise than in accordance with the conditions of the allocation.
- A grant by the municipality otherwise than in accordance with the MFMA.

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### 1.21 Unauthorised expenditure (continued)

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.

### 1.22 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.

### 1.23 Irregular expenditure

Irregular expenditure as defined in section 1 of the MFMA is expenditure incurred in contravention of or that is not in accordance with the:

- MFMA;
- Municipal Systems Act (Act No. 32 of 2000);
- Public Office-Bearers Act (Act No. 20 of 1998); or
- A requirement of the supply chain management policy of the municipality or any of the municipality's by-laws giving effect to such policy; and
- which has not been condoned in terms of that Act, policy or by-law.

MFMA Circular 68 requires the following (effective from 1 April 2008):

Irregular expenditure that was incurred and identified during the current financial and which was condoned before year end and / or before finalisation of the annual financial statements must also be recorded appropriately in the irregular expenditure register. In such an instance, no further action is required with the exception of updating the note to the annual financial statements.

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 annual 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 annual 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 annual 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 annual financial statements and updated accordingly in the irregular expenditure register.

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.

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### 1.24 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 note 54. They are the segments identified above or alternatively an aggregation of two or more of those segments where the aggregation criteria are met.

### 1.25 Budget information

The approved budget is prepared on a accrual basis and relates solely to the municipality. The approved budget covers the fiscal period from 1 July 2020 to 30 June 2021

The municipality considers budget variances greater than 10% and R 1 511 000 (approximately 0.5% of revenue) as material.

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.

### 1.26 Related parties

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

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

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

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

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

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

Related parties include key management personnel such as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager and close family members of key management personnel.

Related party transactions during the year and balances at reporting date is disclosed in note 51.

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.

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### 1.27 Value-Added Tax

The municipality is registered with the SARS for VAT on the payment basis, in accordance with Sec15 (2)(a) of the Value- Added Tax Act No 89 of 1991.

Revenue, expenses and assets are recognised net of the amount of VAT except:

- Where the VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the VAT is recognised as part of the cost of acquisition of the asset or as part of the expense item, as applicable.
- Receivables and payables that are stated with the amount of VAT included.

The net amount of VAT recoverable from, or payable to, SARS is separately disclosed in the statement of financial position.

### 1.28 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.

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### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2021 or later periods:

##### **Guideline: Guideline on Accounting for Landfill Sites**

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

The effective date of these revisions have not yet been set.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

##### **GRAP 25 (as revised 2021): Employee Benefits**

##### **Background**

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS® 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise.
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14® ) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

##### **Key amendments to GRAP 25**

The Board agreed to align GRAP 25 with IPSAS 39, but that local issues and the local environment need to be considered. As a result of this decision, there are areas where GRAP 25 departs from the requirements of IPSAS 39. The Board's decisions to depart are explained in the basis for conclusions.

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### 2. New standards and interpretations (continued)

The amendments to GRAP 25 are extensive and mostly affect the accounting for defined benefit plans. A new renumbered Standard of GRAP (e.g. GRAP 39) will not be issued, but rather a new version of the current GRAP 25.

The effective date of this amendment is for years beginning on or after 01 April 2023.

The municipality expects to adopt the revisions for the first time in the 2023/2024 annual financial statements.

The adoption of this revisions is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

#### **GRAP 104 (amended): Financial Instruments**

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued
- Loan commitments issued
- Classification of financial assets
- Amortised cost of financial assets
- Impairment of financial assets
- Disclosures

The effective date of the amendment is not yet set by the Minister of Finance.

The municipality expects to adopt the amendment for the first time when the Minister sets the effective date for the amendment.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

#### **GRAP 1 (amended): Presentation of Financial Statements**

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

#### **Materiality and aggregation**

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

#### **Statement of financial position and statement of financial performance**

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

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### 2. New standards and interpretations (continued)

#### Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

#### Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

An municipality applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after 01 April 2023.

The municipality expects to adopt the amendment for the first time in the 2023/2024 annual financial statements.

The adoption of this amendment is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.



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### 3. Inventories

|                                    |                  |                  |
|------------------------------------|------------------|------------------|
| Land held for resale               | 4 391 264        | 4 391 264        |
| Stores (consumables and materials) | 2 679 477        | 1 422 077        |
|                                    | <b>7 070 741</b> | <b>5 813 341</b> |

|                                       |       |     |
|---------------------------------------|-------|-----|
| Inventory written off during the year | 1 685 | 797 |
|---------------------------------------|-------|-----|

|  |           |           |
|--|-----------|-----------|
| Inventories recognised as an expense during the year | 1 548 412 | 1 122 015 |
|--|-----------|-----------|

Inventories expensed during the year relate to consumables (note 39) and repairs and maintenance (note 40).

### 4. Receivables from exchange transactions

|                                |                  |                  |
|--------------------------------|------------------|------------------|
| Gross rental debtors           | 3 627 246        | 2 925 085        |
| Less: Allowance for impairment | (2 641 270)      | (2 069 352)      |
| Net rental debtors             | 985 976          | 855 733          |
| Sundry debtors                 | 186 341          | 144 308          |
|                                | <b>1 172 317</b> | <b>1 000 041</b> |

Rental debtors and sundry debtors are unsecured. Rental debtors from exchange transactions are billed monthly. No interest is charged on rental debtor accounts until the end of the following month. Thereafter interest is charged at a rate determined by Council on the outstanding balance.

The municipality did not pledge any of its receivables from exchange transactions as security for borrowing purposes.

In determining the recoverability of receivables from exchange transactions, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers in the Cradock and Middelburg geographical area. Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

#### The ageing of receivables from exchange transactions is as follows:

|                       |                  |                  |
|-----------------------|------------------|------------------|
| Current (0 - 30 days) | 354 395          | 297 787          |
| 31 - 60 days          | 65 990           | 72 365           |
| 61 - 90 days          | 59 856           | 63 651           |
| 91 - 120 days         | 59 706           | 59 501           |
| 121 - 150 days        | 39 882           | 40 714           |
| More than 151 days    | 592 488          | 466 023          |
|                       | <b>1 172 317</b> | <b>1 000 041</b> |

#### Trade and other receivables past due but not impaired

At 30 June 2021, R 817 922 (2020: R 702 254) were past due but not impaired.

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

|                             |                |                |
|-----------------------------|----------------|----------------|
| 1 month past due            | 65 990         | 72 365         |
| 2 months past due           | 59 856         | 63 651         |
| 3 months past due           | 59 706         | 59 501         |
| 4 months past due           | 39 882         | 40 714         |
| More than 4 months past due | 592 488        | 466 023        |
|                             | <b>817 922</b> | <b>702 254</b> |

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

#### Trade and other receivables impaired

As of 30 June 2021, trade and other receivables of R 2 641 270 (2020: R 2 069 352) were impaired and provided for.

The ageing of these loans is as follows:

|                    |                  |                  |
|--------------------|------------------|------------------|
| 0 to 3 months      | 60 289           | 5 183            |
| 3 to 6 months      | 70 297           | 13 019           |
| 6 to 9 months      | 103 114          | 235 738          |
| More than 9 months | 2 407 570        | 1 815 412        |
|                    | <b>2 641 270</b> | <b>2 069 352</b> |

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

|                                      |                  |                  |
|--------------------------------------|------------------|------------------|
| Opening balance                      | 2 069 352        | 4 537 270        |
| Provision for impairment             | 596 187          | -                |
| Amounts written off as uncollectible | (24 269)         | (2 135 118)      |
| Unused amounts reversed              | -                | (332 800)        |
|                                      | <b>2 641 270</b> | <b>2 069 352</b> |

### 5. Receivables from non-exchange transactions

|                                |                   |                   |
|--------------------------------|-------------------|-------------------|
| Gross rates receivable         | 94 614 647        | 80 550 254        |
| Less: Allowance for impairment | (77 538 568)      | (63 983 434)      |
| <b>Net rates debtors</b>       | <b>17 076 079</b> | <b>16 566 820</b> |

Rates are billed based on consumer choice (i.e. either monthly or annually). No interest is charged on rates accounts until the end of the following month. Thereafter interest is charged at a rate determined by Council on the outstanding balance. The municipality did not pledge any of its receivables from non-exchange transactions as security for borrowing purposes.

In determining the recoverability of receivables from non-exchange transactions, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers in the Cradock and Middelburg geographical area. Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

#### The ageing of receivables from non-exchange transactions is as follows:

|                       |                   |                   |
|-----------------------|-------------------|-------------------|
| Current (0 - 30 days) | 1 610 330         | 2 166 352         |
| 31 - 60 days          | 334 051           | 397 309           |
| 61 - 90 days          | 282 295           | 342 705           |
| 91 - 120 days         | 227 939           | 255 928           |
| 121 - 150 days        | 84 074            | 80 917            |
| More than 151 days    | 14 537 390        | 13 323 609        |
|                       | <b>17 076 079</b> | <b>16 566 820</b> |

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| <b>5. Receivables from non-exchange transactions (continued)</b>  |                     |                     |
| <b>Receivables from non-exchange transactions past due but not impaired</b>   |                     |                     |
| At 30 June 2021, R 15 465 749 (2020: R 14 400 468) were past due but not impaired.  |                     |                     |
| The ageing of amounts past due but not impaired is as follows:  |                     |                     |
| 1 month past due  | 334 051             | 397 309             |
| 2 months past due   | 282 295             | 342 705             |
| 3 months past due   | 227 939             | 255 928             |
| 4 months past due   | 84 074              | 80 917              |
| More than 4 months past due   | 14 537 390          | 13 323 609          |
|   | <b>15 465 749</b>   | <b>14 400 468</b>   |
| <b>Receivables from non-exchange transactions impaired</b>  |                     |                     |
| As of 30 June 2021, other receivables from non-exchange transactions of R 77 538 568 (2020: R 63 983 434) were impaired and provided for.   |                     |                     |
| The ageing of these loans is as follows:  |                     |                     |
| 0 to 3 months   | 1 201 347           | 894 836             |
| 3 to 6 months   | 1 321 340           | 994 985             |
| 6 to 9 months   | 1 546 910           | 2 274 465           |
| More than 9 months past due   | 73 468 971          | 59 819 148          |
|   | <b>77 538 568</b>   | <b>63 983 434</b>   |
| <b>Reconciliation of provision for impairment of receivables from non-exchange transactions</b>   |                     |                     |
| Opening balance   | 63 983 434          | 68 522 517          |
| Provision for impairment  | 14 257 932          | 11 366 700          |
| Amounts written off as uncollectible  | (702 798)           | (15 905 783)        |
|   | <b>77 538 568</b>   | <b>63 983 434</b>   |
| <b>6. VAT receivable - exchange transactions</b>  |                     |                     |
| VAT   | 18 451 471          | 10 257 868          |
| No interest is payable to the SARS if the VAT is paid over timeously, however interest and penalties for late payments is charged according to the SARS policies. The municipality has financial risk policies in place to ensure that payments are effected before the due date. |                     |                     |
| <b>7. Consumer debtors</b>  |                     |                     |
| <b>Gross balances</b>   |                     |                     |
| Electricity   | 35 500 114          | 30 150 363          |
| Refuse  | 74 326 950          | 87 036 617          |
|   | <b>109 827 064</b>  | <b>117 186 980</b>  |
| <b>Less: Allowance for impairment</b>   |                     |                     |
| Electricity   | (13 004 743)        | (9 742 271)         |
| Refuse  | (72 008 280)        | (84 027 668)        |
|   | <b>(85 013 023)</b> | <b>(93 769 939)</b> |

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### 7. Consumer debtors (continued)

#### Net balance

|             |                   |                   |
|-------------|-------------------|-------------------|
| Electricity | 22 495 371        | 20 408 092        |
| Refuse      | 2 318 670         | 3 008 949         |
|             | <b>24 814 041</b> | <b>23 417 041</b> |

The ageing of consumer debtors from exchange transactions is as follows:

#### Electricity

|                       |                   |                   |
|-----------------------|-------------------|-------------------|
| Current (0 - 30 days) | 6 142 908         | 8 822 924         |
| 31 - 60 days          | 1 613 156         | 1 950 649         |
| 61 - 90 days          | 1 446 182         | 1 920 545         |
| 91 - 120 days         | 1 543 562         | 1 664 078         |
| 121 - 365 days        | 1 400 384         | 281 270           |
| > 365 days            | 10 349 179        | 5 768 626         |
|                       | <b>22 495 371</b> | <b>20 408 092</b> |

#### Refuse

|                       |                  |                  |
|-----------------------|------------------|------------------|
| Current (0 - 30 days) | 1 186 292        | 1 568 694        |
| 31 - 60 days          | 302 899          | 417 300          |
| 61 - 90 days          | 265 780          | 332 955          |
| 91 - 120 days         | 241 596          | 222 120          |
| 121 - 365 days        | 70 780           | 72 185           |
| > 365 days            | 251 323          | 395 695          |
|                       | <b>2 318 670</b> | <b>3 008 949</b> |

### Consumer debtors past due but not impaired

At 30 June 2021, R 17 484 841 (2020: R 13 025 423) were past due but not impaired.

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

|                             |                   |                   |
|-----------------------------|-------------------|-------------------|
| 1 month past due            | 1 916 055         | 2 367 949         |
| 2 months past due           | 1 711 962         | 2 253 500         |
| 3 months past due           | 1 785 158         | 1 886 198         |
| 4 months past due           | 1 471 164         | 353 455           |
| More than 4 months past due | 10 600 502        | 6 164 321         |
|                             | <b>17 484 841</b> | <b>13 025 423</b> |

### Consumer debtors impaired

As of 30 June 2021, consumer debtors of R 85 013 024 (2020: R 93 769 939) were impaired and provided for.

The ageing of these loans is as follows:

|               |                   |                   |
|---------------|-------------------|-------------------|
| 0 to 3 months | 3 656 173         | 4 090 993         |
| 3 to 6 months | 4 085 655         | 4 622 484         |
| 6 to 9 months | 5 412 298         | 5 304 645         |
| Over 9 months | 71 858 898        | 79 751 817        |
|               | <b>85 013 024</b> | <b>93 769 939</b> |

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### 7. Consumer debtors (continued)

#### Reconciliation of allowance for impairment of consumer debtors

|                                      |                   |                   |
|--------------------------------------|-------------------|-------------------|
| Opening balance                      | 93 769 939        | 93 131 622        |
| Allowance for impairment             | 23 399 551        | 19 039 339        |
| Amounts written off as uncollectible | (32 156 466)      | (18 401 022)      |
|                                      | <b>85 013 024</b> | <b>93 769 939</b> |

Consumer debtors from exchange transactions are billed monthly. No interest is charged on consumer debtor accounts until the end of the following month. Thereafter interest is charged at a rate determined by Council on the outstanding balance.

The municipality did not pledge any of its consumer debtors from exchange transactions as security for borrowing purposes.

In determining the recoverability of consumer debtors from exchange transactions, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being spread over a large number of consumers in the Cradock and Middelburg geographical area. Accordingly, management believe that there is no further credit provision required in excess of the provision for impairment.

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

|                     |                  |                  |
|---------------------|------------------|------------------|
| Bank balances       | 1 178 552        | 1 171 497        |
| Short-term deposits | 588 291          | 580 200          |
|                     | <b>1 766 843</b> | <b>1 751 697</b> |

#### The municipality had the following bank accounts

| Account number /<br>description                           | Bank statement balances |                  |                  | Cash book balances |                  |                  |
|---|-------------------------|------------------|------------------|--------------------|------------------|------------------|
|   | 30 June 2021            | 30 June 2020     | 30 June 2019     | 30 June 2021       | 30 June 2020     | 30 June 2019     |
| First National Bank -<br>51980028125 (Current)            | (524 137)               | 717 422          | 6 515 071        | (36 721)           | 1 161 611        | 6 905 746        |
| First National Bank -<br>51981035195 (Current)            | 1 215 273               | 9 887            | 29 432           | 1 215 273          | 9 887            | 29 432           |
| First National Bank -<br>62483143493 (Call)               | 406                     | 406              | 368              | 406                | 406              | 368              |
| ABSA Bank - 9274923100<br>(Call)                          | 188 916                 | 184 101          | 175 538          | 188 916            | 186 772          | 175 538          |
| ABSA Bank - 9264494272<br>(Call)                          | 159 040                 | 155 145          | 148 543          | 159 040            | 158 049          | 148 543          |
| ABSA Bank - 9247070027<br>(Call)                          | 75 275                  | 73 474           | 70 846           | 75 275             | 75 380           | 70 846           |
| Standard Bank of South<br>Africa - 288553187010<br>(Call) | 150 317                 | 145 420          | 136 679          | 150 317            | 145 420          | 136 679          |
| Nedbank Limited -<br>08851015 (Investment)                | 10 799                  | 10 557           | 10 098           | 10 799             | 10 557           | 10 098           |
| Nedbank Limited -<br>08851015                             | 3 538                   | 3 615            | -                | 3 538              | 3 615            | -                |
| <b>Total</b>  | <b>1 279 427</b>        | <b>1 300 027</b> | <b>7 086 575</b> | <b>1 766 843</b>   | <b>1 751 697</b> | <b>7 477 250</b> |

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### 9. Investment property

|                     | 2021       |                        |                             | 2020       |                        |                             |
|---------------------|------------|------------------------|-----------------------------|------------|------------------------|-----------------------------|
|                     | Fair value | Accumulated impairment | Fair value less impairments | Fair value | Accumulated impairment | Fair value less impairments |
| Investment property | 55 819 310 | -                      | 55 819 310                  | 40 105 000 | -                      | 40 105 000                  |

#### Reconciliation of investment property - 2021

|                     | Opening balance | Donations at fair value | Impairments | Fair value adjustments | Total      |
|---------------------|-----------------|-------------------------|-------------|------------------------|------------|
| Investment property | 40 105 000      | 15 351 310              | (452 000)   | 815 000                | 55 819 310 |

#### Reconciliation of investment property - 2020

|                     | Opening balance | Fair value adjustments | Total      |
|---------------------|-----------------|------------------------|------------|
| Investment property | 40 819 000      | (714 000)              | 40 105 000 |

The additions at fair value relates to properties at the Vuzubuntu Cultural Village donated by the Department of Tourism. These additions were valued by an independent valuer. Due to a fire at the cultural village, one of the rondavels was completely damaged. The full cost of this rondavel was impaired during the year.

#### Details of valuation

The effective date of the revaluations was Wednesday, 30 June 2021. Fair valuations were performed by Engnet Solutions, who contracted an independent valuer, Mr Stefan Rudman, ND Real Estate (Property Valuations), who is registered with the Professional Valuers Council, Registration Number: 3693. Mr Stefan Rudman and Engnet Solutions are not connected to the municipality and have recent experience in location and category of the investment property being valued.

Based on the nature of the properties, different valuation methods were used. For vacant land, the comparable sales method of valuation was used. For sports clubs the depreciated replacement cost method of valuation was used, while for properties on which rental are charged, the income capitalisation method of valuation was used. Various assumptions are used for valuating the properties and these valuation certificates are available for inspection at the municipality. These assumptions are based on current market conditions. All of the municipality's investment property is held under freehold interests and no investment property had been pledged as security for any liabilities of the municipality.

There are no restrictions on the realisability of investment property or the remittance of revenue and proceeds of disposal. There are no contractual obligations on investment property.

#### Amounts recognised in surplus or deficit

|   |                  |                  |
|---|------------------|------------------|
| Rental revenue from Investment property                       | 1 240 277        | 1 540 487        |
| <b>From Investment property that generated rental revenue</b> |                  |                  |
| Direct operating expenses (excluding repairs and maintenance) | 2 114 744        | 2 168 487        |
| Repairs and maintenance                                       | 62 853           | 65 687           |
|   | <b>2 177 597</b> | <b>2 234 174</b> |

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### 10. Heritage assets

|                      | 2021                |                                     |                | 2020                |                                     |                |
|----------------------|---------------------|-------------------------------------|----------------|---------------------|-------------------------------------|----------------|
|                      | Cost /<br>Valuation | Accumulated<br>impairment<br>losses | Carrying value | Cost /<br>Valuation | Accumulated<br>impairment<br>losses | Carrying value |
| Historical buildings | 16 019 999          | -                                   | 16 019 999     | 3 025 000           | -                                   | 3 025 000      |

#### Reconciliation of heritage assets 2021

|                      | Opening<br>balance | Transfers from<br>work in<br>progress | Donations at<br>fair value | Impairment<br>losses<br>recognised | Total      |
|----------------------|--------------------|---------------------------------------|----------------------------|------------------------------------|------------|
| Historical buildings | 3 025 000          | 2 258 050                             | 10 741 949                 | (5 000)                            | 16 019 999 |

#### Reconciliation of heritage assets 2020

|                      | Opening<br>balance | Total     |
|----------------------|--------------------|-----------|
| Historical buildings | 3 025 000          | 3 025 000 |

#### Additional information on heritage assets

The Garden of Remembrance (Cradock Four) was officially handed over to the Municipality by the Department of Tourism on 17 August 2020. The heritage asset was valued at fair value by an independent sworn appraiser.

There are no restrictions on the remittance of revenue of heritage asset, however there are restrictions on realisability and proceeds of disposal of inalienable heritage assets. There are no contractual obligations to purchase, construct or develop heritage assets or for repairs, maintenance or enhancements. There are no heritage assets pledged as security for liabilities. An old lamp post with a book value of R 5 000 located at the traffic circle was fully impaired during the current financial year.

### 11. Property, plant and equipment

|                        | 2021                 |   |                      | 2020                 |   |                      |
|------------------------|----------------------|---|----------------------|----------------------|---|----------------------|
|                        | Cost                 | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value       | Cost                 | Accumulated<br>depreciation<br>and<br>accumulated<br>impairment | Carrying value       |
| Land                   | 36 970 844           | -   | 36 970 844           | 36 970 844           | -   | 36 970 844           |
| Buildings              | 146 447 897          | (33 829 073)  | 112 618 824          | 146 324 110          | (28 193 904)  | 118 130 206          |
| Plant and machinery    | 5 843 872            | (2 804 288)   | 3 039 584            | 5 696 031            | (2 148 920)   | 3 547 111            |
| Furniture and fixtures | 4 676 929            | (3 772 512)   | 904 417              | 4 532 779            | (3 342 873)   | 1 189 906            |
| Motor vehicles         | 22 856 217           | (19 688 005)  | 3 168 212            | 22 856 217           | (17 906 715)  | 4 949 502            |
| Office equipment       | 1 222 990            | (736 782)   | 486 208              | 909 989              | (613 989)   | 296 000              |
| IT equipment           | 4 516 691            | (3 002 976)   | 1 513 715            | 3 667 708            | (2 608 748)   | 1 058 960            |
| Infrastructure         | 1 144 909 028        | (273 690 617)   | 871 218 411          | 1 125 562 388        | (230 794 715)   | 894 767 673          |
| Community              | 104 883 276          | (20 019 097)  | 84 864 179           | 104 883 276          | (16 213 610)  | 88 669 666           |
| Landfill sites         | 23 572 751           | (18 328 231)  | 5 244 520            | 23 572 751           | (17 760 631)  | 5 812 120            |
| Work in progress       | 63 654 004           | -   | 63 654 004           | 58 430 516           | -   | 58 430 516           |
| <b>Total</b>           | <b>1 559 554 499</b> | <b>(375 871 581)</b>  | <b>1 183 682 918</b> | <b>1 533 406 609</b> | <b>(319 584 105)</b>  | <b>1 213 822 504</b> |

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

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

|                        | Opening<br>balance   | Additions         | Disposals           | Donations<br>received | Transfers          | WIP Reversals      | Depreciation        | Impairment<br>loss | Total                |
|------------------------|----------------------|-------------------|---------------------|-----------------------|--------------------|--------------------|---------------------|--------------------|----------------------|
| Land                   | 36 970 844           | -                 | -                   | -                     | -                  | -                  | -                   | -                  | 36 970 844           |
| Buildings              | 118 130 206          | 122 943           | -                   | -                     | -                  | -                  | (5 634 325)         | -                  | 112 618 824          |
| Plant and machinery    | 3 547 111            | 147 840           | -                   | -                     | -                  | -                  | (655 367)           | -                  | 3 039 584            |
| Furniture and fixtures | 1 189 906            | 69 284            | -                   | 48 977                | -                  | -                  | (403 750)           | -                  | 904 417              |
| Motor vehicles         | 4 949 502            | -                 | -                   | -                     | -                  | -                  | (1 740 958)         | (40 332)           | 3 168 212            |
| Office equipment       | 296 000              | 302 252           | -                   | 10 748                | -                  | -                  | (122 792)           | -                  | 486 208              |
| IT equipment           | 1 058 960            | 847 889           | -                   | 1 581                 | -                  | -                  | (394 715)           | -                  | 1 513 715            |
| Infrastructure         | 894 767 673          | 67 550            | (11 307 534)        | -                     | 35 861 419         | -                  | (48 170 697)        | -                  | 871 218 411          |
| Community              | 88 669 666           | -                 | -                   | -                     | -                  | -                  | (3 805 487)         | -                  | 84 864 179           |
| Landfill sites         | 5 812 120            | -                 | -                   | -                     | -                  | -                  | (567 600)           | -                  | 5 244 520            |
| Work in progress       | 58 430 516           | 45 856 625        | -                   | -                     | (38 119 470)       | (2 513 667)        | -                   | -                  | 63 654 004           |
|                        | <b>1 213 822 504</b> | <b>47 414 383</b> | <b>(11 307 534)</b> | <b>61 306</b>         | <b>(2 258 051)</b> | <b>(2 513 667)</b> | <b>(61 495 691)</b> | <b>(40 332)</b>    | <b>1 183 682 918</b> |



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

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

|                        | Opening<br>balance   | Additions         | Disposals        | Donations<br>received | Transfers       | Transfer to<br>expenses | Changes due<br>to review of<br>estimated<br>useful lives | Depreciation        | Total                |
|------------------------|----------------------|-------------------|------------------|-----------------------|-----------------|-------------------------|--|---------------------|----------------------|
| Land                   | 36 970 844           | -                 | -                | -                     | -               | -                       | -  | -                   | 36 970 844           |
| Buildings              | 123 778 413          | -                 | -                | -                     | -               | -                       | -  | (5 648 207)         | 118 130 206          |
| Plant and machinery    | 4 313 410            | 28 842            | (48 109)         | -                     | -               | -                       | -  | (747 032)           | 3 547 111            |
| Furniture and fixtures | 1 530 979            | 85 885            | (100 250)        | 195 644               | -               | -                       | 73 401   | (595 753)           | 1 189 906            |
| Motor vehicles         | 7 077 523            | -                 | -                | -                     | -               | -                       | 1 043 843  | (3 171 864)         | 4 949 502            |
| Office equipment       | 379 777              | 39 102            | -                | -                     | -               | -                       | 14 874   | (137 753)           | 296 000              |
| IT equipment           | 1 388 199            | 338 322           | (165 197)        | -                     | -               | -                       | 146 013  | (648 377)           | 1 058 960            |
| Infrastructure         | 933 680 012          | 186 501           | -                | -                     | 8 513 297       | -                       | -  | (47 612 137)        | 894 767 673          |
| Community              | 77 423 340           | -                 | -                | -                     | 15 015 707      | -                       | -  | (3 769 381)         | 88 669 666           |
| Landfill sites         | 7 035 724            | -                 | -                | -                     | -               | -                       | -  | (1 223 604)         | 5 812 120            |
| Work in progress       | 44 568 803           | 37 540 755        | -                | -                     | (23 610 875)    | (68 167)                | -  | -                   | 58 430 516           |
|                        | <b>1 238 147 024</b> | <b>38 219 407</b> | <b>(313 556)</b> | <b>195 644</b>        | <b>(81 871)</b> | <b>(68 167)</b>         | <b>1 278 131</b>   | <b>(63 554 108)</b> | <b>1 213 822 504</b> |

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

#### Property, plant and equipment in the process of being constructed or developed

The following infrastructure projects are taking significantly longer period of time to complete than expected and also been halted in the previous reporting period due to the following reasons:

|   |                   |                   |
|---|-------------------|-------------------|
| (Infrastructure Assets) Supply and Installation of RMUs and Ripple Signal Receivers (Brainwave Projects)<br><i>The project is 95% completed and a snag list completed as per completion certificate signed in 2021/22 financial year.</i> | 5 361 460         | 5 361 460         |
| (Infrastructure Assets) LV and MV Distribution Network Rosemead Phase 1 (TM Africa & Yakha Lungisa)<br><i>The project is 95% completed and a snag list completed as per completion certificate signed in 2021/22 financial year.</i>      | 10 221 565        | 10 221 565        |
| (Infrastructure Assets) Middelburg Ward 7 and 8 Highmasts<br><i>The project is still under construction. The contractor was appointed in February 2021.</i>   | 1 238 209         | 765 739           |
| (Infrastructure Assets) Construction of Cattle Custom Feed<br><i>Project stopped due to disputes between the contractor and the municipality. The project will be completed in 2021/22 financial year.</i>                                | 716 078           | 716 078           |
| (Community Assets) Lingelihle Community Hall<br><i>The project is still under construction and will be completed in 2021/22 financial year.</i>   | 9 840 619         | 3 710 803         |
|   | <b>27 377 931</b> | <b>20 775 645</b> |

#### Reconciliation of Work-in-Progress 2021

|                                 | Included within Infrastructure | Included within Community | Included within Heritage Assets | Total             |
|---------------------------------|--------------------------------|---------------------------|---------------------------------|-------------------|
| Opening balance                 | 32 585 503                     | 23 586 962                | 2 258 051                       | 58 430 516        |
| Additions / capital expenditure | 37 794 285                     | 8 062 340                 | -                               | 45 856 625        |
| WIP Reversals                   | (2 513 667)                    | -                         | -                               | (2 513 667)       |
| Transferred to completed items  | (35 861 419)                   | -                         | (2 258 051)                     | (38 119 470)      |
|                                 | <b>32 004 702</b>              | <b>31 649 302</b>         | <b>-</b>                        | <b>63 654 004</b> |

#### Reconciliation of Work-in-Progress 2020

|                                 | Included within Infrastructure | Included within Community | Included within Heritage Assets | Total             |
|---------------------------------|--------------------------------|---------------------------|---------------------------------|-------------------|
| Opening balance                 | 32 738 124                     | 28 790 738                | -                               | 61 528 862        |
| Prior year error                | (16 723 878)                   | (236 181)                 | -                               | (16 960 059)      |
| Restated opening balance        | 16 014 246                     | 28 554 557                | -                               | 44 568 803        |
| Additions / capital expenditure | 27 424 476                     | 10 116 279                | -                               | 37 540 755        |
| Transferred to completed items  | (8 595 168)                    | (15 015 707)              | -                               | (23 610 875)      |
| Transferred to expenses         | -                              | (68 167)                  | -                               | (68 167)          |
| Reclassification                | (2 258 051)                    | -                         | 2 258 051                       | -                 |
|                                 | <b>32 585 503</b>              | <b>23 586 962</b>         | <b>2 258 051</b>                | <b>58 430 516</b> |

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

Refer to note 40 for details about repairs and maintenance disclosure.

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| <b>12. Payables from exchange transactions</b> |                    |                    |
| Trade payables                                 | 279 711 627        | 202 860 158        |
| Accrued leave pay                              | 5 297 514          | 5 629 026          |
| Accrued thirteenth cheque                      | 1 721 548          | 1 721 316          |
| Other payroll accruals                         | 1 948 585          | 4 082 558          |
| Deposits received                              | 2 007 393          | 1 710 909          |
| Other payables                                 | 1 189 924          | 1 188 877          |
| Retentions                                     | 8 043 063          | 6 192 561          |
| Credit balance in debtors                      | 5 566 028          | 5 934 786          |
| Amounts payable to principal                   | 2 410 593          | 1 634 151          |
|  | <b>307 896 275</b> | <b>230 954 342</b> |

The average credit period on purchases is 30 days from the receipt of the invoice, as determined by the MFMA, except when the liability is disputed. No interest is charged for the first 30 days from the date of receipt of the invoice. Thereafter interest is charged in accordance with the credit policies of the various individual creditors that the municipality deals with. The municipality has policies in place to ensure that all payables are paid within the credit timeframe, however due to liquidity problems, the municipality was not able to meet payment commitments. Credit balances in debtors relates to overpaid debtors accounts.

Staff leave accrue to the staff of the municipality on an annual basis, subject to certain conditions. The accrual is an estimate of the amount due at the reporting date. Accrued thirteenth cheque relates to the thirteenth cheque payable annually on the employees birthday month by the municipality. The accrual is an estimate of the amount due at the reporting date.

Other payables consists of unidentified deposits received by the municipality from account holders.

Refer to note 19 for further information on amounts due to agency arrangement principal.

## 13. Consumer deposits

|             |           |           |
|-------------|-----------|-----------|
| Electricity | 1 318 822 | 1 333 294 |
|-------------|-----------|-----------|

Consumer deposits from exchange transactions are paid by consumers on application for new electricity connections. The deposits are repaid when the electricity connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid by the municipality on consumer deposits from exchange transactions held.

## 14. Unspent conditional grants and receipts

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

### Unspent conditional grants and receipts

|   |                |                |
|---|----------------|----------------|
| Department of Sport, Recreational Arts and Culture: Libraries grant | -              | 96 819         |
| Chris Hani District Municipality Grant                              | 583 922        | 183 922        |
|   | <b>583 922</b> | <b>280 741</b> |

### Movement during the year

|                                      |                |                |
|--------------------------------------|----------------|----------------|
| Balance at the beginning of the year | 280 741        | 1 433 744      |
| Additions during the year            | 31 561 001     | 33 793 946     |
| Income recognition during the year   | (31 257 820)   | (34 946 949)   |
|                                      | <b>583 922</b> | <b>280 741</b> |

See note 26 for reconciliation of grants received.

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### 15. Employee benefit obligations

#### Long-service awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the municipality. The liability represents an estimation of the awards to which employees in the service of the municipality may become entitled to in the future, based on an actuarial valuation performed.

At 30 June 2021, 311 (2020: 311) employees were eligible for long-service awards.

The independent valuers, ZAQ Consultants and Actuaries, have been engaged to carry out a GRAP 25: Employee benefits actuarial valuation of the municipality's liability as at 30 June 2021 arising out of the long-service awards to be awarded to qualifying in-service employees.

#### Long-service awards obligation

|                                       |                  |                  |
|---------------------------------------|------------------|------------------|
| Opening balance                       | 4 577 000        | 4 893 000        |
| Current service costs                 | 541 000          | 634 000          |
| Interest cost                         | 553 000          | 482 000          |
| Benefits paid                         | (300 798)        | (312 484)        |
| Actuarial losses                      | (275 202)        | (1 119 516)      |
| <b>Balance at the end of the year</b> | <b>5 095 000</b> | <b>4 577 000</b> |

Reasons for actuarial gain:

*Changes in economic variables:* Over the past year, there have been various changes in the discount rates and inflation rates resulting in a net decrease in discount rates. This resulted in an overall increase in the liability of R 236 000.

*Benefits paid experience:* The benefits paid for the previous valuation year was expected to be R 652 000 at the previous valuation date. The actual benefits paid was R 300 798. The net effect resulted in a decrease in the actuarial loss of R 351 202.

*Membership changes and other experience items:* Demographic experience over the past year was different to what was expected at the previous valuation date. The average annual salary increased by 7.46% versus an expected increase of 8.67%. The net effect of this along with other smaller changes, resulted in a decrease in liability of R 160 000.

#### Assumptions

##### Key assumptions used

|                             |        |        |
|-----------------------------|--------|--------|
| Discount rate               | 8.18 % | 8.01 % |
| Consumer price inflation    | 5.27 % | 4.96 % |
| Normal salary increase rate | 6.27 % | 7.36 % |
| Net effective discount rate | 1.79 % | 1.93 % |

##### Employee information for year ended 30 June 2021

|                                       | Male  | Female | Total |
|---------------------------------------|-------|--------|-------|
| Number of active employees            | 206   | 105    | 311   |
| Salary weighted average age (years)   | 46.43 | 42.53  | 45    |
| Weighted average past service (years) | 11.87 | 10.07  | 11    |

##### Employee information for year ended 30 June 2020

|                                       | Male  | Female | Total |
|---------------------------------------|-------|--------|-------|
| Number of active employees            | 207   | 104    | 311   |
| Salary weighted average age (years)   | 46.44 | 41.48  | 45    |
| Weighted average past service (years) | 12.00 | 9.74   | 11    |

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### 15. Employee benefit obligations (continued)

#### Sensitivity

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

- 20% increase / decrease in the assumed level of mortality
- 1% increase / decrease in the normal salary inflation

|  |              |              |
|--|--------------|--------------|
| <b>Change in assumed level of withdrawal for year ended 30 June 2021</b> | 20% increase | 20% decrease |
| Effect on the interest cost  | (24 000)     | 27 000       |
| Effect on the current service cost                                       | (37 000)     | 41 000       |
| Effect on long-service award obligation                                  | (209 000)    | 229 000      |
| <b>Change in normal salary inflation for year ended 30 June 2021</b>     | 1% increase  | 1% decrease  |
| Effect on the interest cost  | 35 000       | (32 000)     |
| Effect on the current service cost                                       | 42 000       | (38 000)     |
| Effect on long-service award obligation                                  | 304 000      | (279 000)    |
| <b>Change in assumed level of withdrawal for year ended 30 June 2020</b> | 20% increase | 20% decrease |
| Effect on the interest cost  | (25 000)     | 28 000       |
| Effect on the current service cost                                       | (32 000)     | 37 000       |
| Effect on long-service award obligation                                  | (189 000)    | 210 000      |
| <b>Change in normal salary inflation for year ended 30 June 2020</b>     | 1% increase  | 1% decrease  |
| Effect on the interest cost  | 35 000       | (32 000)     |
| Effect on the current service cost                                       | 36 000       | (32 000)     |
| Effect on long-service award obligation                                  | 269 000      | (246 000)    |

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

|  | 2021<br>R        | 2020<br>R        | 2019<br>R        | 2018<br>R | 2017<br>R |
|--|------------------|------------------|------------------|-----------|-----------|
| Long-service award obligation                              | 5 095 000        | 4 577 000        | 4 893 000        | 4 449 000 | 4 397 000 |
| <b>Expected liability for each of the next three years</b> |                  |                  |                  |           |           |
|  | 2022<br>R        | 2023<br>R        | 2024<br>R        |           |           |
| Liability at the beginning of the year                     | 5 095 000        | 5 641 000        | 6 225 821        |           |           |
| Current service costs                                      | 606 000          | 643 763          | 686 448          |           |           |
| Interest cost  | 543 000          | 602 058          | 641 251          |           |           |
| Benefits paid  | (603 000)        | (661 000)        | (1 140 000)      |           |           |
| <b>Balance at the end of the year</b>                      | <b>5 641 000</b> | <b>6 225 821</b> | <b>6 413 520</b> |           |           |

#### Post retirement medical aid plan

The municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired employees of the municipality. According to the rules of the medical aid funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement. The municipality is thus liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees. No other post-retirement benefits are provided to these employees. Currently the qualifying members will received a 60% subsidy on the medical aid contributions.

The independent valuers, ZAQ Consultants and Actuaries, have been engaged to carry out an GRAP 25: Employee Benefits actuarial valuation of the municipality's liability as at 30 June 2021 arising out of the post retirement medical aid plan awarded to qualifying in-service employees.

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### 15. Employee benefit obligations (continued)

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

#### Carrying value

|   |            |            |
|---|------------|------------|
| Present value of the defined benefit obligation-wholly unfunded | 29 537 000 | 27 339 000 |
|---|------------|------------|

Changes in the present value of the defined benefit obligation are as follows:

|                                       |                   |                   |
|---------------------------------------|-------------------|-------------------|
| Opening balance                       | 27 339 000        | 31 781 000        |
| Current service cost                  | 620 000           | 868 000           |
| Interest cost                         | 2 679 000         | 3 099 000         |
| Benefits paid                         | (1 858 993)       | (1 959 041)       |
| Actuarial (gains) losses              | 757 993           | (6 449 959)       |
| <b>Balance at the end of the year</b> | <b>29 537 000</b> | <b>27 339 000</b> |

Current service costs are included in employee related costs in the statement of financial performance (refer to note 30).

#### Key assumptions used

Assumptions used at the reporting date:

|                           |         |         |
|---------------------------|---------|---------|
| Discount rate             | 10.31 % | 10.03 % |
| Consumer price inflation  | 6.51 %  | 5.56 %  |
| Healthcare cost inflation | 7.51 %  | 6.56 %  |
| Net discount rate         | 2.61 %  | 3.26 %  |

Reasons for actuarial loss:

*Changes in economic variables:* Nominal and real zero curves were used at 30 June 2021 supplied by the JSE to determine our discount rates and CPI assumptions at each relevant time period. The net effect of this was a decrease in interest rates. This resulted in an overall increase in the liability of approximately R 1 778 000.

*Changes in demographics and subsidy amounts:* Membership changes and other demographic changes were different to what was expected at the previous valuation date. The average monthly subsidy increased by 0.7% and -1.5% for the in-service and pensioners respectively. This was significantly different to the expected subsidy inflation of 6.56%. The net effect of this, along with a few smaller changes in assumptions, was a decrease in liability of around R 1 020 007.

#### Other assumptions

##### Current (In Service) Members - 2021

|   | Male  | Female | Total |
|---|-------|--------|-------|
| Number of active employees                        | 63    | 47     | 110   |
| Subsidy weighted average age                      | 48.1  | 43.8   | 46.3  |
| Subsidy weighted average past service             | 14.1  | 12.2   | 13.3  |
| Number of spouses                                 | 21    | 10     | 31    |
| Average monthly subsidy payable during retirement | 1 980 | 1 950  | 1 970 |

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### 15. Employee benefit obligations (continued)

|   |             |               |              |
|---|-------------|---------------|--------------|
| <b>Current (In Service) Members - 2020</b>        | <b>Male</b> | <b>Female</b> | <b>Total</b> |
| Number of active employees                        | 58          | 40            | 96           |
| Subsidy weighted average age                      | 47.5        | 42.7          | 45.6         |
| Subsidy weighted average past service             | 13.4        | 12.2          | 12.9         |
| Number of spouses                                 | 20          | 10            | 30           |
| Average monthly subsidy payable during retirement | 2 000       | 1 940         | 1 970        |
| <b>Continuation Members (Pensioners) - 2021</b>   | <b>Male</b> | <b>Female</b> | <b>Total</b> |
| Number of continuation members                    | 29          | 19            | 48           |
| Subsidy weighted average age                      | 74.5        | 73.4          | 74.1         |
| Average monthly subsidy                           | 3 130       | 2 980         | 3 070        |
| <b>Continuation Members (Pensioners) - 2020</b>   | <b>Male</b> | <b>Female</b> | <b>Total</b> |
| Number of continuation members                    | 30          | 20            | 50           |
| Subsidy weighted average age                      | 74.2        | 72.3          | 73.5         |
| Average monthly subsidy                           | 3 070       | 3 010         | 3 050        |

#### Sensitivity

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

- 20% increase / decrease in the assumed level of mortality
- 1% increase / decrease in the medical aid inflation

|  |                     |                     |
|--|---------------------|---------------------|
| <b>Change in Mortality rate - 2021</b>           | <b>20% increase</b> | <b>20% decrease</b> |
| Effect on the interest cost                      | 220 000             | (272 000)           |
| Effect on the service cost                       | 62 000              | (74 000)            |
| Effect on post retirement medical aid obligation | 2 161 000           | (2 671 000)         |
| <b>Change in Mortality rate - 2020</b>           | <b>20% increase</b> | <b>20% decrease</b> |
| Effect on the interest cost                      | 193 000             | (238 000)           |
| Effect on the service cost                       | 46 000              | (54 000)            |
| Effect on post retirement medical aid obligation | 1 907 000           | (2 345 000)         |
| <b>Change in medical aid inflation - 2021</b>    | <b>1% increase</b>  | <b>1% decrease</b>  |
| Effect on the interest cost                      | (289 000)           | 276 000             |
| Effect on the service cost                       | (136 000)           | 125 000             |
| Effect on post retirement medical aid obligation | (2 814 000)         | 2 684 000           |
| <b>Change in medical aid inflation - 2020</b>    | <b>1% increase</b>  | <b>1% decrease</b>  |
| Effect on the interest cost                      | (241 000)           | 231 000             |
| Effect on the service cost                       | (94 000)            | 89 000              |
| Effect on post retirement medical aid obligation | (2 347 000)         | 2 266 000           |

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

|  | 2021              | 2020              | 2019              | 2018       | 2017       |
|--|-------------------|-------------------|-------------------|------------|------------|
|  | R                 | R                 | R                 | R          | R          |
| Post retirement medical aid obligation                     | 29 537 000        | 27 339 000        | 31 781 000        | 33 738 000 | 41 287 000 |
| Experience adjustments on plan liabilities                 | 1 020 007         | 2 538 959         | 4 097 000         | 10 792 670 | (224 292)  |
| <b>Expected liability for each of the next three years</b> | <b>2022</b>       | <b>2023</b>       | <b>2024</b>       |            |            |
| Liability at the beginning of the year                     | 29 537 000        | 31 370 000        | 33 571 000        |            |            |
| Current service cost                                       | 793 000           | 873 000           | 961 000           |            |            |
| Interest cost  | 2 910 000         | 3 101 000         | 3 329 000         |            |            |
| Expected benefits to be paid                               | (1 870 000)       | (1 773 000)       | (1 716 000)       |            |            |
| <b>Liability at the end of the year</b>                    | <b>31 370 000</b> | <b>33 571 000</b> | <b>36 145 000</b> |            |            |

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### 16. Provisions

#### Reconciliation of provisions - 2021

|                              | Opening Balance | Interest cost | Reversed during the year | Change in estimate | Total      |
|------------------------------|-----------------|---------------|--------------------------|--------------------|------------|
| Environmental rehabilitation | 26 536 164      | 1 703 838     | (3 034 950)              | (2 009 052)        | 23 196 000 |

#### Reconciliation of provisions - 2020

|                                 | Opening Balance | Interest cost | Change in estimate | Total      |
|---------------------------------|-----------------|---------------|--------------------|------------|
| Rehabilitation of landfill site | 25 051 546      | 1 816 237     | (331 619)          | 26 536 164 |

#### Environmental rehabilitation provision

The municipality has an obligation to rehabilitate its landfill sites in terms of the conditions set out in the original licenses and subsequent extensions to the licenses. The estimated value of the rehabilitation cost of landfill sites has been determined as at 30 June 2021 by technical experts, ZAQ Consultants and Actuaries. The provision is the best estimate of the value of the rehabilitation costs of the landfill sites to restore the sites at the end of their useful lives. The landfill sites are classified as non-current liabilities because the licenses have been extended.

The following assumptions were made when calculating the provision:

- Costs included in the provision relate only to estimated costs to be incurred relating to pre-closure, closure and post closure activities of the current landfill sites. Any costs associated with the new site will be capitalised to a new landfill asset in future.
- The exact topography of the both sites are not known and for this reason, estimates are based on the area of the landfill site as viewed on Google Earth.
- Cradock Landfill Site: An area of 2.7 Ha has been assumed for the required capping. The geosynthetic clay liner (GCL) with a soil cover layer has been assumed for capping since there is no bottom liner present. Due to the GCL in use, a gas drainage system and a leachate system has been allowed for.
- Middelburg Landfill Site: The waste volumes in the license have been assumed to be correct. A cell of 40 m x 40 m with a class B liner, which should last 2 to 3 years based on the waste generation in the license, a 20 m x 20 m contaminated water dam and a 2,500 litre calcamite tank to address leachate was costed. It is also assumed that suitable soil and stone will be imported and that excavated material will be stockpiled for cover and final rehabilitation.
- It is assumed that Cradock and Middelburg will be able to rehabilitate their land over the extension period of 4 years and 9 years respectively.
- The previous year's costs have been escalated by the CPI rate of 3.9% (2020: 4.6%).
- The following CPI rates were used in determining the future value of the estimated future costs:
  - Cradock: 4.47% (2020: 3.27%; 2019: 4.65%)
  - Middelburg: 6.13% (2020: 3.27%; 2019: 5.28%)
- The following discount rates were used in determining the present value of the estimated future costs:
  - Cradock: 7.11% (2020: 7.25%; 2019: 7.67%)
  - Middelburg: 9.89% (2020: 7.25%; 2019: 8.61%)

#### The discounted cost to rehabilitate the landfill sites are calculated to be:

|                     |                   |                   |
|---------------------|-------------------|-------------------|
| Cradock landfill    | 10 933 000        | 11 082 972        |
| Middelburg landfill | 12 263 000        | 15 453 192        |
|                     | <b>23 196 000</b> | <b>26 536 164</b> |

### 17. Service charges

|                     |                    |                    |
|---------------------|--------------------|--------------------|
| Sale of electricity | 97 576 585         | 93 512 852         |
| Refuse removal      | 27 301 863         | 27 196 357         |
|                     | <b>124 878 448</b> | <b>120 709 209</b> |



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| <b>18. Rental of facilities and equipment</b> |                  |                  |
| <b>Premises</b>                               |                  |                  |
| Premises                                      | 1 265 037        | 1 424 614        |
| Venue hire                                    | 45 292           | 256 751          |
|   | <b>1 310 329</b> | <b>1 681 365</b> |
| <b>Facilities and equipment</b>               |                  |                  |
| Rental of facilities                          | 8 085            | 162 884          |
| Rental of equipment                           | 53 913           | 140 701          |
| Vehicle hire                                  | 10 194           | 10 810           |
|   | <b>72 192</b>    | <b>314 395</b>   |
|   | <b>1 382 521</b> | <b>1 995 760</b> |

Rental revenue earned on facilities and equipment is in respect of non-financial assets rented out.

## 19. Accounting by principals and agents

### Municipality as agent

|                              |           |           |
|------------------------------|-----------|-----------|
| Revenue                      | 2 377 709 | 1 825 515 |
| Amounts payable to principal | 2 410 593 | 1 634 151 |

### Details of arrangement where municipality is the agent

The municipality has entered into a service level agreement with the Department of Transport to execute and deliver services on behalf of the Department of Transport in relation to registering authorities, driving license testing centres and vehicle testing stations. The Department of Transport is the principal and the municipality is the agent in the arrangement. The municipality benefits from the arrangement because it is able to collect additional revenue and there is no significant increase in risk to the municipality as a result of this arrangement. There has been no change to the arrangement in the current year.

The revenue collected as disclosed above is earned with as follows:

- Registering Authority: The municipality is entitled to 19% of the total amount collected and the balance of 81% accrues to the Department of Transport.
- Driving License Testing Centre: The municipality must deposit the prescribed amount to the Driving License Card Production Entity for each drivers' license card ordered. The municipality is entitled to all the fees collected other than the prescribed amount per card ordered.
- Vehicle Testing Station: The municipality is entitled to 97% of the revenue collected and the remainder accrues to the Department of Transport.

The municipality does not incur costs on behalf of the Department of Transport.

### Municipality as principal

|                                    |           |           |
|------------------------------------|-----------|-----------|
| Commission paid to prepaid vendors | 1 635 350 | 1 484 069 |
|------------------------------------|-----------|-----------|

### Details of arrangement where municipality is the principal

There are no amounts due to or from the agents.

The municipality has entered into service level agreements with various prepaid meter vendors to execute and deliver services on its behalf with respect to the sale of prepaid electricity. The municipality is the principal and the respective prepaid vendors are the agents in the arrangement.

There has been no change in the arrangement in the current year. The commission earned on the sale of prepaid electricity is determined at 5% of prepaid sales deposited.

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| <b>20. Other income</b>   |                       |                       |
| Adjustment to provision for rehabilitation  | 2 009 052             | 331 619               |
| Administration fees received  | 80 427                | 30 561                |
| Cemetery fees   | 697 878               | 471 167               |
| Clearance application fees  | 88 855                | 115 448               |
| Commission received   | 125 727               | 130 361               |
| Connection fees   | 215 724               | 196 779               |
| Plan fees   | 279 517               | 259 246               |
| Sundry fees   | 415 536               | (36 612)              |
|   | <b>3 912 716</b>      | <b>1 498 569</b>      |
| <b>21. Interest received</b>  |                       |                       |
| Bank  | 84 690                | 266 965               |
| Interest charged on consumer debtors and arrear rates                                 | 13 536 407            | 15 284 522            |
|   | <b>13 621 097</b>     | <b>15 551 487</b>     |
| <b>22. (Loss) / Gain on disposal of assets and liabilities</b>                        |                       |                       |
| Property, plant and equipment   | (10 908 283)          | 738 474               |
| <b>23. Fair value adjustments</b>   |                       |                       |
| Investment property (Fair value model)  | 815 000               | (714 000)             |
| <b>24. Actuarial (losses) / gains</b>   |                       |                       |
| Actuarial (losses) / gains for the year is stated after accounting for the following: |                       |                       |
| Actuarial (losses) / gains on the post retirement medical benefit obligation          | (757 993)             | 6 449 959             |
| Actuarial gain on the long service award  | 275 202               | 1 119 516             |
|   | <b>(482 791)</b>      | <b>7 569 475</b>      |
| <b>25. Property rates</b>   |                       |                       |
| <b>Rates received</b>   |                       |                       |
| Residential   | 45 118 524            | 43 834 717            |
| <b>Valuations</b>   |                       |                       |
| Residential   | 1 642 014 000         | 1 642 014 000         |
| Commercial  | 608 448 000           | 608 448 000           |
| State   | 820 898 000           | 820 898 000           |
| Small holdings and farms  | 7 529 015 400         | 7 529 015 400         |
| Public Service Infrastructure   | 48 047 000            | 48 047 000            |
|   | <b>10 648 422 400</b> | <b>10 648 422 400</b> |

Property rates are levied on the value of land and improvements, for which valuation is performed every four years. The last general valuation came into effect on 1 July 2014. Interim valuations are processed on an continuous basis to take into account changes in individual property values due to alterations and subdivisions. Rates are levied based on consumer choice (i.e. monthly or annually) on property owners and are payable the end of each month. Interest is levied at a rate determined by Council on outstanding rates amounts.

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### 26. Government grants and subsidies

#### Operating grants

|   |                   |                   |
|---|-------------------|-------------------|
| Equitable share   | 52 679 000        | 42 907 000        |
| Finance Management Grant  | 3 000 000         | 2 680 000         |
| Expanded Public Works Programme Integrated Grant                      | 1 324 000         | 1 284 001         |
| Department of Sport, Recreational Arts and Culture: Libraries Grant   | 2 606 820         | 2 934 284         |
| Department of Economic Development, Environmental Affairs and Tourism | -                 | 3 000 000         |
| Chris Hani District Municipality Grant Funding                        | -                 | 716 078           |
| Skills Education Training Authority (SETA) grant                      | -                 | 278 396           |
| Disaster relief fund  | -                 | 447 000           |
|   | <b>59 609 820</b> | <b>54 246 759</b> |

#### Capital grants

|   |                   |                   |
|---|-------------------|-------------------|
| Municipal Infrastructure Grant                    | 19 827 000        | 16 112 586        |
| Integrated National Electrification Program Grant | 4 500 000         | 10 773 000        |
|   | <b>24 327 000</b> | <b>26 885 586</b> |
|   | <b>83 936 820</b> | <b>81 132 345</b> |

#### Equitable Share

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

All registered indigents receive a monthly subsidy of R 390 (2020: R 428), which is funded from the grant.

#### Finance Management Grant

|   |             |             |
|---|-------------|-------------|
| Current-year receipts                   | 3 000 000   | 2 680 000   |
| Conditions met - transferred to revenue | (3 000 000) | (2 680 000) |
|   | <b>-</b>    | <b>-</b>    |

All conditions attached to this grant have been met.

#### Expanded Public Works Programme Integrated Grant

|   |             |             |
|---|-------------|-------------|
| Current-year receipts                   | 1 320 400   | 1 284 000   |
| Conditions met - transferred to revenue | (1 320 400) | (1 284 000) |
|   | <b>-</b>    | <b>-</b>    |

All conditions attached to this grant have been met.

#### Department of Sport, Recreational Arts and Culture: Libraries Grant

|   |             |               |
|---|-------------|---------------|
| Balance unspent at beginning of year    | 96 819      | 525 159       |
| Current-year receipts                   | 2 510 001   | 2 510 000     |
| Conditions met - transferred to revenue | (2 606 820) | (2 938 340)   |
|   | <b>-</b>    | <b>96 819</b> |

All conditions attached to this grant have been met in the current year.

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| <b>26. Government grants and subsidies (continued)</b>                       |                       |                       |
| <b>Department of Economic Development, Environmental Affairs and Tourism</b> |                       |                       |
| Current-year receipts  | -                     | 3 000 000             |
| Conditions met - transferred to revenue                                      | -                     | (3 000 000)           |
|  | <u>-</u>              | <u>-</u>              |
| All conditions attached to this grant have been met.                         |                       |                       |
| <b>Chris Hani District Municipality grant funding</b>                        |                       |                       |
| Balance unspent at beginning of year   | 183 922               | 900 000               |
| Current-year receipts  | 400 000               | -                     |
| Conditions met - transferred to revenue                                      | -                     | (716 078)             |
|  | <u><b>583 922</b></u> | <u><b>183 922</b></u> |
| All conditions attached to this grant have not yet been met (see note 14).   |                       |                       |
| <b>Skills Education Training Authority (SETA) grant</b>                      |                       |                       |
| Current-year receipts  | -                     | 278 396               |
| Conditions met - transferred to revenue                                      | -                     | (278 396)             |
|  | <u>-</u>              | <u>-</u>              |
| All conditions attached to this grant have been met.                         |                       |                       |
| <b>Disaster relief fund</b>  |                       |                       |
| Current-year receipts  | -                     | 447 000               |
| Conditions met - transferred to revenue                                      | -                     | (447 000)             |
|  | <u>-</u>              | <u>-</u>              |
| All conditions attached to this grant have been met.                         |                       |                       |
| <b>Municipal Infrastructure Grant</b>  |                       |                       |
| Balance unspent at beginning of year   | -                     | 8 585                 |
| Current-year receipts  | 19 827 000            | 16 104 000            |
| Conditions met - transferred to revenue                                      | (19 827 000)          | (16 112 585)          |
|  | <u>-</u>              | <u>-</u>              |
| All conditions attached to this grant have been met.                         |                       |                       |
| <b>Integrated National Electrification Program Grant</b>                     |                       |                       |
| Current-year receipts  | 4 500 000             | 10 773 000            |
| Conditions met - transferred to revenue                                      | (4 500 000)           | (10 773 000)          |
|  | <u>-</u>              | <u>-</u>              |
| All conditions attached to this grant have been met.                         |                       |                       |

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### 27. Donations received

The Department of Tourism donated the Vuzubuntu Cultural Village and the Cradock Four Wall of Remembrance heritage site on 17 August 2020 to the municipality. The municipality determined the fair value of the donated assets using an independent valuer. The fair value is summarised as follows:

|  |                   |          |
|--|-------------------|----------|
| Vuzubuntu function hall and reception area (investment property) | 9 256 960         | -        |
| Vuzubuntu moveable assets (property, plant and equipment)        | 61 306            | -        |
| Vuzubuntu rondavels (investment property)                        | 6 094 350         | -        |
| Cradock Four Wall of Remembrance facility (heritage assets)      | 10 741 949        | -        |
|  | <b>26 154 565</b> | <b>-</b> |

### 28. Fines

|               |        |         |
|---------------|--------|---------|
| Traffic fines | 46 328 | 208 792 |
|---------------|--------|---------|

### 29. Revenue

|  |                    |                    |
|--|--------------------|--------------------|
| Service charges                                    | 124 878 448        | 120 709 209        |
| Rental of facilities and equipment                 | 1 382 521          | 1 995 760          |
| Agency services                                    | 2 377 709          | 1 825 515          |
| Sundry fees and income                             | 3 912 716          | 1 498 569          |
| Interest received                                  | 13 621 097         | 15 551 487         |
| Property rates                                     | 45 118 524         | 43 834 717         |
| Government grants and subsidies                    | 83 936 820         | 81 132 345         |
| Fines  | 46 328             | 208 792            |
| Actuarial gains                                    | -                  | 7 569 475          |
| Gain or loss on disposal of assets and liabilities | -                  | 738 474            |
| Fair value adjustments                             | 815 000            | -                  |
| Public contributions and donations                 | 26 154 565         | -                  |
|  | <b>302 243 728</b> | <b>275 064 343</b> |

#### The amount included in revenue arising from exchanges of goods or services are as follows:

|  |                    |                    |
|--|--------------------|--------------------|
| Service charges                                    | 124 878 448        | 120 709 209        |
| Rental of facilities and equipment                 | 1 382 521          | 1 995 760          |
| Agency services                                    | 2 377 709          | 1 825 515          |
| Sundry fees and income                             | 3 912 716          | 1 498 569          |
| Interest received                                  | 13 621 097         | 15 551 487         |
| Actuarial gains                                    | -                  | 7 569 475          |
| Gain or loss on disposal of assets and liabilities | -                  | 738 474            |
| Fair value adjustments                             | 815 000            | -                  |
|  | <b>146 987 491</b> | <b>149 888 489</b> |

#### The amount included in revenue arising from non-exchange transactions is as follows:

##### Taxation revenue

|                |            |            |
|----------------|------------|------------|
| Property rates | 45 118 524 | 43 834 717 |
|----------------|------------|------------|

##### Transfer revenue

|                                    |            |            |
|------------------------------------|------------|------------|
| Government grants & subsidies      | 83 936 820 | 81 132 345 |
| Public contributions and donations | 26 154 565 | -          |
| Fines                              | 46 328     | 208 792    |

|                    |                    |
|--------------------|--------------------|
| <b>155 256 237</b> | <b>125 175 854</b> |
|--------------------|--------------------|

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| <b>30. Employee related costs</b>  |                   |                   |
| Acting allowances  | 2 540 822         | 1 153 517         |
| Adjustments to post retirement medical obligation  | 620 000           | 868 000           |
| Bargaining council levy  | 32 691            | 35 837            |
| Basic  | 62 000 571        | 62 365 105        |
| Group life insurance   | 936               | 936               |
| Housing benefits and allowances  | 326 688           | 742 643           |
| Long-service awards  | 541 000           | 634 000           |
| Medical aid - municipal contributions  | 2 774 437         | 2 667 825         |
| Other allowances   | 449 951           | 306 126           |
| Overtime payments  | 3 209 947         | 3 448 104         |
| Pension contributions  | 9 414 916         | 9 035 883         |
| SDL  | 627 894           | 607 725           |
| Thirteenth cheque  | 4 195 799         | 4 423 517         |
| Travel, motor car, accommodation and subsistence allowances  | 5 134 901         | 5 653 547         |
| UIF  | 555 415           | 537 641           |
|  | <b>92 425 968</b> | <b>92 480 406</b> |
| Refer to note 51 for remuneration paid to section 57 managers.   |                   |                   |
| <b>31. Remuneration of councillors</b>   |                   |                   |
| Executive Mayor  | 911 482           | 885 482           |
| Executive committee members  | 2 314 579         | 2 313 609         |
| Speaker  | 520 478           | 739 163           |
| Councillors  | 3 487 544         | 3 515 208         |
| Ward committee members' allowances   | 697 030           | 801 210           |
|  | <b>7 931 113</b>  | <b>8 254 672</b>  |
| <b>In-kind benefits</b>  |                   |                   |
| The Executive Mayor, Speaker and some executive committee members are full-time councillors. The Executive Mayor and Speaker are provided with an office and secretarial support at the cost of the Council. Remuneration of councillors includes the total earnings for the annum plus the employer contributions for the year. Refer to note 51 for details of remuneration paid to councillors. |                   |                   |
| <b>32. Depreciation and amortisation</b>   |                   |                   |
| Property, plant and equipment  | 61 495 691        | 62 275 978        |
| <b>33. Finance costs</b>   |                   |                   |
| Interest expense on rehabilitation provisions  | 1 703 838         | 1 816 237         |
| Payables from exchange transactions  | 9 873 510         | 13 824 896        |
| Interest expense on employee benefit obligations   | 3 232 000         | 3 581 000         |
|  | <b>14 809 348</b> | <b>19 222 133</b> |
| <b>34. Lease rentals on operating lease</b>  |                   |                   |
| <b>Equipment</b>   |                   |                   |
| Contractual amounts  | 117 055           | 135 902           |

The lease agreements are for office equipment leased from 1 August 2017 for a period of 3 years and 2 additional machines leased from 1 March 2018 for a period of 29 months. The contract expired in the current financial year and the municipality is currently leasing the equipment on a month to month basis.

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| <b>35. Impairment of assets</b>  |                   |                   |
| <b>Impairments</b>   |                   |                   |
| Property, plant and equipment  | 40 332            | -                 |
| A vehicle was damaged during the year and was impaired.  |                   |                   |
| Investment property  | 452 000           | -                 |
| Due to a fire at the cultural village, one of the rondavels was completely damaged. The full cost of the Rondavel was impaired during the year.  |                   |                   |
| Heritage assets  | 5 000             | -                 |
| The old lamp post at the traffic circle was impaired during the year.  |                   |                   |
| Consumer debtors from exchange transactions  | 23 399 551        | 19 039 339        |
| Consumer debtors from exchange transactions have been impaired as a result of non-payment by account holders. The municipality have implemented collection procedures against these accounts which have not been successful to date. |                   |                   |
| Receivables from exchange transactions   | 596 187           | (332 800)         |
| Receivables from exchange transactions have been impaired as a result of non-payment by account holders. The municipality have implemented collection procedures against these accounts which have not been successful to date.      |                   |                   |
| Receivables from non-exchange transactions   | 14 257 932        | 11 366 700        |
| Receivables from non-exchange transactions have been impaired as a result of non-payment by account holders. The municipality have implemented collection procedures against these accounts which have not been successful to date.  |                   |                   |
|  | <b>38 751 002</b> | <b>30 073 239</b> |
| <b>36. Bad debts written off</b>   |                   |                   |
| Bad debts written off  | 9 004 940         | 4 412 174         |
| <b>37. Bulk purchases</b>  |                   |                   |
| Electricity - Eskom  | 80 998 169        | 75 146 360        |
| <b>38. Contracted services</b>   |                   |                   |
| <b>Consultants and Professional Services</b>   |                   |                   |
| Preparation of financial statements and improving audit outcomes   | 2 851 937         | 2 528 337         |
| Preparation of fixed asset register  | 6 444 500         | 4 201 464         |
| Municipal finance system maintenance   | 1 178 519         | 2 020 939         |
| VAT recovery services  | 405 899           | 323 992           |
| Implementing the performance management system   | 3 481 000         | 4 221 786         |
| Other  | 3 178 879         | 783 020           |
|  | <b>17 540 734</b> | <b>14 079 538</b> |

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| <b>39. General expenses</b>               |                   |                   |
| Advertising                               | 655 802           | 240 493           |
| Auditors remuneration                     | 4 167 667         | 3 084 856         |
| Bank charges                              | 651 837           | 810 843           |
| Commission paid                           | 1 815 350         | 1 484 069         |
| Computer expenses                         | 3 957 994         | 1 265 488         |
| Consulting and professional fees          | 3 551 828         | 2 444 916         |
| Consumables                               | 22 449            | 429 578           |
| Insurance                                 | 2 401 576         | 2 043 002         |
| Inventory written off                     | -                 | 797               |
| Membership fees                           | 375 886           | 971 371           |
| Motor vehicle expenses                    | 1 971 301         | 1 821 040         |
| Other expenses                            | 1 052 878         | 1 952 437         |
| Postage and courier                       | 221 645           | 649 550           |
| Pre-closure costs on landfill sites       | 2 617 224         | -                 |
| Printing and stationery                   | 141 949           | 497 251           |
| Refuse bags and bins                      | 144 164           | 1 067             |
| Security (Guarding of municipal property) | 816 005           | 63 004            |
| Special programs and events               | 352 094           | 366 970           |
| Telephone and fax                         | 1 621 524         | 1 790 911         |
| Training                                  | 1 763 191         | 644 921           |
| Utilities                                 | 1 334 982         | 3 367 658         |
|   | <b>29 637 346</b> | <b>23 930 222</b> |
| <b>40. Repairs and maintenance</b>        |                   |                   |
| Buildings and structures                  | 43 521            | 100 609           |
| Infrastructure                            | 3 766 457         | 1 779 792         |
| Office equipment                          | 236 834           | 139 852           |
| Tools and accessories                     | 23 268            | 38 643            |
| Vehicles                                  | 563 279           | 158 091           |
|   | <b>4 633 359</b>  | <b>2 216 987</b>  |



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| <b>41. Cash generated from operations</b>                 |                   |                   |
| Deficit   | (66 492 071)      | (57 877 268)      |
| <b>Adjustments for:</b>                                   |                   |                   |
| Depreciation and amortisation                             | 61 495 691        | 62 275 978        |
| Gain (loss) on sale of assets and liabilities             | 10 908 283        | (738 474)         |
| Fair value adjustments                                    | (815 000)         | 714 000           |
| Impairment loss   | 38 751 002        | 30 073 239        |
| Bad debts written off                                     | 9 004 940         | 4 412 174         |
| Adjustment to provisions for rehabilitation               | (5 044 002)       | (331 619)         |
| Interest expense provisions for rehabilitation            | 1 703 838         | 1 816 237         |
| Benefits paid on employee benefit obligation              | (2 159 791)       | (2 271 525)       |
| Interest cost on employee benefit obligations             | 3 232 000         | 3 581 000         |
| Current service cost on employee benefit obligations      | 1 161 000         | 1 502 000         |
| Actuarial losses / (gains) on employee benefit obligation | 482 791           | (7 569 475)       |
| Property, plant and equipment donated to the municipality | (26 154 565)      | (113 775)         |
| Work in progress reversals                                | 2 513 669         | -                 |
| <b>Changes in working capital:</b>                        |                   |                   |
| Inventories   | (1 257 400)       | (827 901)         |
| Receivables from exchange transactions                    | (832 531)         | (282 812)         |
| Consumer debtors  | (33 638 691)      | (21 182 274)      |
| Other receivables from non-exchange transactions          | (14 865 924)      | (18 004 420)      |
| Payables from exchange transactions                       | 76 941 933        | 43 293 972        |
| VAT   | (8 193 603)       | (5 851 481)       |
| Unspent conditional grants and receipts                   | 303 181           | (1 153 003)       |
| Consumer deposits   | (14 472)          | (22 748)          |
|   | <b>47 030 278</b> | <b>31 441 825</b> |
| <b>42. Commitments</b>                                    |                   |                   |
| <b>Authorised capital expenditure</b>                     |                   |                   |
| <b>Already contracted for but not provided for</b>        |                   |                   |
| • Community assets  | 4 199 260         | 12 602 387        |
| • Infrastructure assets                                   | 46 674 672        | 5 858 888         |
|   | <b>50 873 932</b> | <b>18 461 275</b> |
| <b>Other commitments</b>                                  |                   |                   |
| <b>Already contracted for but not provided for</b>        |                   |                   |
| • Other   | 8 165 110         | -                 |
| <b>Total commitments</b>                                  |                   |                   |
| <b>Total commitments</b>                                  |                   |                   |
| Authorised capital expenditure                            | 50 873 932        | 18 461 275        |
| Other   | 8 165 110         | -                 |
|   | <b>59 039 042</b> | <b>18 461 275</b> |

This committed expenditure relates to various capital projects and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated and grant income received.

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| <b>42. Commitments (continued)</b>            |               |                |
| <b>Operating leases - as lessee (expense)</b> |               |                |
| <b>Minimum lease payments due</b>             |               |                |
| - within one year                             | 57 332        | 687 981        |
| - in second to fifth year inclusive           | -             | 57 332         |
|   | <b>57 332</b> | <b>745 313</b> |

The lease agreements are for office equipment leased from 1 August 2017 for a period of 3 years and 2 additional machines leased from 1 March 2018 for a period of 29 months. The contract expired in the current financial year and the municipality is currently leasing the equipment on a month to month basis.

## 43. Contingencies

### Contingent liabilities

The Department of Economic Development, Environmental Affairs and Tourism issued a closure license in March 2015 for the Cradock landfill site. In terms of the closure license, the municipality is authorised to decommission and rehabilitate the landfill sites. The license sets out the terms and conditions of the closure license and required actions to be taken by the Municipality. Despite obtaining an extended license to 2025 in the current financial year, the Municipality remains exposed to the risk of litigation due to damage caused to the surrounding environment and the residents of this municipal area because it continued to use the site after the closure license was issued. The extent of the risk exposure is unknown.

*Inxuba Yethemba Local Municipality vs. Iqhayiya Design Workshop* - After the Plaintiff failed to produce draft tender documents within the specified timeframe, the Municipality terminated the contract. Action was instituted against the Municipality with the Plaintiffs claiming an amount for damages against the Defendants of R 2 007 889 in their claim dated 19 April 2018. Litigation proceedings are underway.

*Inxuba Yethemba Local Municipality vs Siphiwo G. Tyindi* - The Plaintiff was appointed to refurbish the existing municipal pound. Breach of construction contract resulted in a claim that was instituted against the municipality for damages in the amount of R 90 654.

*Inxuba Yethemba Local Municipality vs Maximum Profit Recovery (Pty) Ltd* - The plaintiff is challenging the appointment of consultancy firm and has instituted a claim the municipality for damages in the approximate amount of R 1 200 000. This matter is ongoing.

There are two ongoing matters relating to an appeal of contempt of court. The possible financial exposure amounts to R 600 000.

Inxuba Yethemba Municipality is defending a matter regarding the Landfill sites currently in operation within the municipal boundaries. The estimated risk exposure amounts to R 300 000.

### Contingent assets

*H M Russel CC; Gordon, Verhoef & Krause (EP) (Pty) Ltd and Miltek Industries South Africa (Pty) Ltd vs. Inxuba Yethemba Local Municipality* - The claim emanates from damages suffered by the Municipality as a result of the failure of the town hall roof. The matter is still in its initial stages. Summons has been issued and served and pleadings have not yet been closed. The claim by the Municipality is estimated to be R 500 000.

*Mrs. P Zimba vs. Inxuba Yethemba Local Municipality* - The claim by the Municipality against one of their cashiers, is estimated to be R 71 437, based on a cash shortage identified.

*Inxuba Yethemba Local Municipality vs Mr XW Msweli* - The case involves various allegations of serious financial misconduct against the Defendant in which the Plaintiff seeks to recover an estimated amount for R 1 393 000. The matter was dealt with in three parts of which the first two have been finalised. The final part, being the disciplinary hearing has not been finalised.

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### 44. Risk management

#### Financial risk management

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

#### Liquidity risk

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

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows

| At 30 June 2021                     | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
|-------------------------------------|------------------|-----------------------|-----------------------|--------------|
| Payables from exchange transactions | 302 598 761      | -                     | -                     | -            |
| At 30 June 2020                     | Less than 1 year | Between 1 and 2 years | Between 2 and 5 years | Over 5 years |
| Payables from exchange transactions | 225 325 316      | -                     | -                     | -            |

#### 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.

Receivables from exchange transactions 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 Council. The utilisation of credit limits is regularly monitored. Services are suspended in terms of the municipality's credit policy should payment or an agreement not be made by the required date. 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 are noted under the respective financial assets - receivables from exchange transactions, receivables from non-exchange transactions and cash and cash equivalents.

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### 44. Risk management (continued)

These balances represent the maximum exposure to credit risk:

| Financial instrument                        | 2021       | 2020       |
|---|------------|------------|
| Cash and cash equivalents                   | 1 766 843  | 1 751 697  |
| Receivables from exchange transactions      | 1 172 317  | 1 000 041  |
| Receivables from non-exchange transactions  | 17 076 079 | 16 566 820 |
| Consumer debtors from exchange transactions | 24 814 041 | 23 417 041 |

#### Market risk

#### Interest rate risk

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

### 45. Financial instruments disclosure

#### Categories of financial instruments

#### 2021

#### Financial assets

|  | At amortised cost | Total             |
|--|-------------------|-------------------|
| Receivables from exchange transactions     | 1 172 317         | 1 172 317         |
| Receivables from non-exchange transactions | 17 076 079        | 17 076 079        |
| Consumer debtors                           | 24 814 041        | 24 814 041        |
| Cash and cash equivalents                  | 1 766 843         | 1 766 843         |
|  | <b>44 829 280</b> | <b>44 829 280</b> |

#### Financial liabilities

|   | At amortised cost  | Total              |
|---|--------------------|--------------------|
| Trade and other payables from exchange transactions | 302 598 761        | 302 598 761        |
| Consumer deposits                                   | 1 318 822          | 1 318 822          |
| Unspent conditional grants                          | 583 922            | 583 922            |
|   | <b>304 501 505</b> | <b>304 501 505</b> |

#### 2020

#### Financial assets

|  | At amortised cost | Total             |
|--|-------------------|-------------------|
| Receivables from exchange transactions     | 1 000 041         | 1 000 041         |
| Receivables from non-exchange transactions | 16 566 820        | 16 566 820        |
| Consumer debtors                           | 23 417 041        | 23 417 041        |
| Cash and cash equivalents                  | 1 751 697         | 1 751 697         |
|  | <b>42 735 599</b> | <b>42 735 599</b> |

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### 45. Financial instruments disclosure (continued)

#### Financial liabilities

|   | At amortised cost  | Total              |
|---|--------------------|--------------------|
| Trade and other payables from exchange transactions | 225 325 316        | 225 325 316        |
| Consumer deposits                                   | 1 333 294          | 1 333 294          |
| Unspent conditional grants                          | 280 741            | 280 741            |
|   | <b>226 939 351</b> | <b>226 939 351</b> |

### 46. Unauthorised expenditure

|  |                    |                    |
|--|--------------------|--------------------|
| Opening balance                              | 254 410 822        | 185 119 342        |
| Unauthorised expenditure in the current year | 133 180 825        | 69 291 480         |
| <b>Closing balance</b>                       | <b>387 591 647</b> | <b>254 410 822</b> |

Unauthorised expenditure is presented per department. The municipality has identified unauthorised expenditure during the current and prior periods. At statement of financial position date, it is not known whether this expenditure is recoverable. No material losses were written off during the year.

#### Unauthorised expenditure: Budget overspending – per municipal department:

|                    |                    |                   |
|--------------------|--------------------|-------------------|
| Technical services | 100 753 849        | 47 043 650        |
| Municipal Manager  | 11 155 816         | 15 389 345        |
| Community services | 8 432 458          | 2 007 630         |
| Corporate Services | 1 648 054          | -                 |
| Finance            | 11 190 648         | 4 850 855         |
|                    | <b>133 180 825</b> | <b>69 291 480</b> |

### 47. Fruitless and wasteful expenditure

|  |                   |                   |
|--|-------------------|-------------------|
| Opening balance                                  | 44 802 245        | 30 939 633        |
| Correction of prior period error                 | -                 | 33 778            |
| Interest on creditors incurred                   | 10 076 300        | 14 826 349        |
| Prior year interest remitted in the current year | -                 | (997 515)         |
| Expenditure reversed                             | (130 447)         | -                 |
| <b>Closing balance</b>                           | <b>54 748 098</b> | <b>44 802 245</b> |

At statement of financial position date, it is not known whether this expenditure is recoverable. No material losses were written off during the year.

In the current year, it was found that the amounts due and related payments to Transnet for the prepaid electricity costs associated to electricity sales in Rosmead had not been correctly recognised in the 2018/19 financial year and the charges and related interest charges in subsequent periods.

### 48. Irregular expenditure

|                                      |                    |                    |
|--------------------------------------|--------------------|--------------------|
| Opening balance                      | 290 639 193        | 230 847 208        |
| Add: Irregular Expenditure - current | 80 153 314         | 59 791 985         |
| <b>Closing balance</b>               | <b>370 792 507</b> | <b>290 639 193</b> |

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### 48. Irregular expenditure (continued)

Incidents/cases identified in the current year include those listed below:

|   |                   |                   |
|---|-------------------|-------------------|
| R 2 000 to R 10 000 - Various suppliers   | 165 416           | 172 940           |
| R 10 000 to R 30 000 - Various suppliers  | 622 990           | 413 139           |
| R 30 000 to R 200 000 - Various suppliers | 5 065 184         | 2 794 166         |
| More than R 200 000 - Various suppliers   | 74 299 724        | 56 411 740        |
|   | <b>80 153 314</b> | <b>59 791 985</b> |

The municipality has identified irregular expenditure during the current and prior periods. Investigations into irregular expenditure have been performed for the financial years ending 30 June 2015 and 30 June 2016. As at 30 June 2021 the amounts had not yet been condoned by Council. At statement of financial position date, it is not known whether this expenditure is recoverable. No material losses were written off during the year. A register containing the details of irregular expenditure is available for inspection at the municipal offices.

### 49. Events after the reporting date

No material fact or circumstance has occurred between the accounting date and the date the annual financial statements are authorised for issue other than those items already mentioned which required disclosure in the annual financial statements.

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

#### Contributions to organised local government

|   |                |                |
|---|----------------|----------------|
| Opening balance                               | 895 415        | 715 710        |
| Current year subscription / fee               | 1 048 243      | 1 038 390      |
| Additional invoices                           | 8 250          | 64 290         |
| Amount paid - current year                    | (8 250)        | (7 205)        |
| Amount paid - previous years                  | (1 353 389)    | (915 770)      |
| <b>Balance payable at the end of the year</b> | <b>590 269</b> | <b>895 415</b> |

#### Audit fees (amounts excludes VAT)

|   |                  |                  |
|---|------------------|------------------|
| Balance payable at the beginning of the year  | 4 717 969        | 3 421 071        |
| Prior year audit fees charged in current year | 4 167 667        | 3 102 511        |
| Interest charged during the year              | 495 683          | 307 430          |
| Amount paid - previous years                  | (608 696)        | (2 113 043)      |
| <b>Balance payable at the end of the year</b> | <b>8 772 623</b> | <b>4 717 969</b> |

#### PAYE and UIF

|   |                  |                  |
|---|------------------|------------------|
| Balance payable at the beginning of the year                    | 4 031 969        | 12 656 274       |
| Contributions   | 12 658 059       | 12 156 645       |
| Interest and penalties - current year                           | 612 876          | 530 511          |
| Interest and penalties - prior year charged in the current year | -                | (997 515)        |
| Amount paid - current year                                      | (11 328 918)     | (9 842 747)      |
| Amount paid - previous years                                    | (4 031 969)      | (10 471 199)     |
| <b>Balance payable at the end of the year</b>                   | <b>1 942 017</b> | <b>4 031 969</b> |

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

#### Pension and Medical Aid Deductions

|   |                  |                  |
|---|------------------|------------------|
| Balance at the beginning of the year          | 3 034 209        | -                |
| Current year subscription / fee               | 22 683 579       | 22 063 202       |
| Amount paid - current year                    | (21 390 108)     | (19 028 993)     |
| <b>Balance payable at the end of the year</b> | <b>4 327 680</b> | <b>3 034 209</b> |

#### VAT

|     |            |            |
|-----|------------|------------|
| VAT | 18 451 471 | 10 257 868 |
|-----|------------|------------|

The municipality is on the payment basis for VAT and submit monthly returns. 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 2021:

| 30 June 2021          | Outstanding<br>less than 90<br>days<br>R | Outstanding<br>more than 90<br>days<br>R | Total<br>R    |
|-----------------------|--|--|---------------|
| Desha M               | 528                                      | 4 333                                    | 4 861         |
| Feartherstonehaugh MH | -  | 20                                       | 20            |
| Goniwe S              | 550                                      | -  | 550           |
| Holster S             | 639                                      | 12 550                                   | 13 189        |
| Nortje MM             | 528                                      | 4 428                                    | 4 956         |
| Sammy CA              | 2 601                                    | 358                                      | 2 959         |
|                       | <b>4 846</b>                             | <b>21 689</b>                            | <b>26 535</b> |
| 30 June 2020          | Outstanding<br>less than 90<br>days<br>R | Outstanding<br>more than 90<br>days<br>R | Total<br>R    |
| Desha M               | 504                                      | 2 029                                    | 2 533         |
| Goniwe S              | 504                                      | 1 972                                    | 2 476         |
| Holster S             | 610                                      | 9 191                                    | 9 801         |
| Nortje MM             | 504                                      | 1 347                                    | 1 851         |
| Sammy CA              | 2 437                                    | 48                                       | 2 485         |
|                       | <b>4 559</b>                             | <b>14 587</b>                            | <b>19 146</b> |

#### Supply chain management regulations

Paragraph 12(1) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of written / verbal quotations, formal written quotations and a competitive bidding process, depending on the specified threshold values.

Paragraph 36 of the above mentioned gazette also provides that the accounting officer may dispense with the official procurement process in certain circumstances provided that he/she records the reasons for any deviations, reports them to the next meeting of the Council and include as a note to the annual financial statements.

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

Various items were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1) as stated above. The reasons for the deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviations from the normal supply chain management regulation. These deviations have also been reported to Council. The reasons for the deviations were mainly due to emergency cases, sole / single suppliers and impracticality in following the official procurement processes.

#### Incident

|                                     |                   |                  |
|-------------------------------------|-------------------|------------------|
| Sole / single supplier              | 2 494 833         | 434 765          |
| Emergencies                         | 4 418 645         | 1 206 254        |
| Exceptional cases                   | 3 191 646         | 1 855 037        |
| Impractical to use another supplier | 5 912 442         | -                |
| Other                               | -                 | 2 836 773        |
|                                     | <b>16 017 566</b> | <b>6 332 829</b> |

### 51. Related parties

#### Management

|   |              |
|---|--------------|
| Municipal Manager (Contract terminated April 2021)                              | Msweli, XW   |
| Acting municipal manager (July 2020 to October 2020)                            | Mulaudzi, KL |
| Acting municipal manager (November 2020 to June 2021)                           | Mbebe, MWM   |
| Chief Financial Officer (Full year)   | Mulaudzi, KL |
| Acting Chief Financial Officer (July 2020 to October 2020)                      | Singeni, V   |
| Director of Local Economic Development (February 2021 to June 2021)             | Makwabe, NM  |
| Acting Director of Local Economic Development (March 2020 to February 2021)     | Maki, MI     |
| Director of Corporate Services (Full year)                                      | Mbebe, MWM   |
| Director of Community Services (Full year)                                      | Twalo, NL    |
| Acting Director of Community Services (July 2020 to August 2020 and April 2021) | Booi, YT     |
| Director of Technical Services (December 2020 to June 2021)                     | Nomandela, S |
| Acting Director of Technical Services (July 2020 to November 2020)              | Matoto, TE   |

#### Executive committee and councillors

|  |            |
|--|------------|
| Mayor                                  | Zonke, NP  |
| Speaker (July 2020 to August 2020)     | Goniwe, NC |
| Speaker (August 2020 to February 2021) | Goniwe, S  |
| Speaker (March 2021 to June 2021)      | Davids, L  |

|                             |            |
|-----------------------------|------------|
| Executive committee members | Nortje, MM |
|                             | Davids, L  |
|                             | Masawe, SV |
|                             | Mgeza, G   |

|                  |         |
|------------------|---------|
| MPAC Chairperson | Bene, V |
|------------------|---------|

|             |                      |
|-------------|----------------------|
| Councillors | Desha, M             |
|             | Diamond, C           |
|             | Featherstonehaug, MH |
|             | Goniwe, S            |
|             | Holster, S           |
|             | Lawens, BL           |
|             | Lottering, R         |
|             | Msali, TM            |
|             | Manakamani, ZA       |
|             | Sammy, CA            |
|             | Vorster, HB          |



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### 51. Related parties (continued)

#### Remuneration of councillors and management

##### Mayoral committee members

##### 2021

| Position and name                       | Councillors' allowance | Other allowances | Total            |
|---|------------------------|------------------|------------------|
| Mayor - Zonke, NP                       | 645 644                | 259 615          | 905 259          |
| Speaker - Goniwe, NC                    | 91 825                 | 30 356           | 122 181          |
| Speak - Goniwe, S (Acting)              | 120 326                | 56 262           | 176 588          |
| Speaker - David, L                      | 204 967                | 13 214           | 218 181          |
| Executive committee member - Davids, L  | 252 993                | 31 186           | 284 179          |
| Executive committee member - Masawe, SV | 270 145                | 134 448          | 404 593          |
| Executive committee member - Mgeza, G   | 360 193                | 44 400           | 404 593          |
| Executive committee member - Mzinzi, NG | 107 200                | 13 214           | 120 414          |
| Executive committee member - Nortje, MM | 645 640                | 44 400           | 690 040          |
| MPAC Chairperson - Bene, V              | 349 618                | 44 400           | 394 018          |
|   | <b>3 048 551</b>       | <b>671 495</b>   | <b>3 720 046</b> |

##### 2020

| Position and name                       | Councillors' allowance | Other allowances | Total            |
|---|------------------------|------------------|------------------|
| Mayor - Shweni, ZR                      | 413 873                | 167 560          | 581 433          |
| Mayor - Zonke, NP                       | 205 406                | 90 828           | 296 234          |
| Speaker - Nortje, MM                    | 459 125                | 29 600           | 488 725          |
| Speaker - Goniwe, NC                    | 184 440                | 59 806           | 244 246          |
| Executive committee member - Bobo, TE   | 314 085                | 133 072          | 447 157          |
| Executive committee member - Nortje, MM | 215 215                | 14 800           | 230 015          |
| Executive committee member - Davids, L  | 273 025                | 131 568          | 404 593          |
| Executive committee member - Masawe, SV | 360 193                | 44 400           | 404 593          |
| Executive committee member - Mgeza, G   | 358 091                | 44 400           | 402 491          |
| MPAC Chairperson - Bene, V              | 360 193                | 44 400           | 404 593          |
|   | <b>3 143 646</b>       | <b>760 434</b>   | <b>3 904 080</b> |

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### 51. Related parties (continued)

#### Councillors

##### 2021

| Position and name                  | Councillors' allowance | Other allowances | Total            |
|------------------------------------|------------------------|------------------|------------------|
| Councillor - Desha, M              | 272 430                | 44 400           | 316 830          |
| Councillor - Diamond, C            | 272 430                | 44 400           | 316 830          |
| Councillor - Featherstonehaugh, MH | 204 312                | 112 518          | 316 830          |
| Councillor - Goniwe, S             | 102 156                | 56 259           | 158 415          |
| Councillor - Holster, S            | 272 430                | 44 400           | 316 830          |
| Councillor - Lawens, BL            | 204 312                | 112 518          | 316 830          |
| Councillor - Lottering, R          | 272 430                | 44 400           | 316 830          |
| Councillor - Msali, TM             | 272 430                | 44 400           | 316 830          |
| Councillor - Manakamani, ZA        | 272 430                | 44 400           | 316 830          |
| Councillor - Mzinzi, NG            | 116 756                | 19 029           | 135 785          |
| Councillor - Sammy, CA             | 204 312                | 112 518          | 316 830          |
| Councillor - Vorster, HB           | 204 312                | 112 518          | 316 830          |
|                                    | <b>2 670 740</b>       | <b>791 760</b>   | <b>3 462 500</b> |

##### 2020

| Position and name                  | Councillors' allowance | Other allowances | Total            |
|------------------------------------|------------------------|------------------|------------------|
| Councillor - Desha, M              | 272 430                | 44 400           | 316 830          |
| Councillor - Diamond, C            | 272 430                | 44 400           | 316 830          |
| Councillor - Featherstonehaugh, MH | 206 497                | 110 333          | 316 830          |
| Councillor - Goniwe, S             | 206 497                | 110 333          | 316 830          |
| Councillor - Holster, S            | 272 430                | 44 400           | 316 830          |
| Councillor - Lawens, BL            | 206 497                | 110 333          | 316 830          |
| Councillor - Lottering, R          | 272 430                | 44 400           | 316 830          |
| Councillor - Msali, TM             | 272 430                | 44 400           | 316 830          |
| Councillor - Mankamani, ZA         | 272 430                | 44 400           | 316 830          |
| Councillor - Sammy, CA             | 206 497                | 110 333          | 316 830          |
| Councillor - Vorster, HB           | 206 497                | 110 333          | 316 830          |
|                                    | <b>2 667 065</b>       | <b>818 065</b>   | <b>3 485 130</b> |

Salaries, allowances and benefits of the political office-bearers and councillors are within the upper limits of the framework envisaged in section 219 of the Constitution.

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## Notes to the Annual Financial Statements

### 51. Related parties (continued)

#### Executive management

##### 2021

| Position   | Salary and acting allowances | Contributions to UIF, Medical and Pension Funds | Other allowances | Total            |
|--|------------------------------|---|------------------|------------------|
| Municipal Manager - Msweli, XW                           | 1 008 968                    | 9 028   | 310 933          | 1 328 929        |
| Chief Financial Officer - Mulaudzi, KL                   | 1 119 369                    | 11 173  | 286 291          | 1 416 833        |
| Acting Chief Financial Officer - Singeni, V              | 286 741                      | 25 807  | 54 001           | 366 549          |
| Director of Local Economic Development - Makwabe, NM     | 346 652                      | 4 548   | 135 519          | 486 719          |
| Acting Director of Local Economic Development - Maki, Mi | 642 541                      | 50 268  | 98 735           | 791 544          |
| Director of Corporate Services - Mbebe, MWM              | 1 453 080                    | 16 326  | 330 682          | 1 800 088        |
| Director of Community Services - Twalo, NO               | 747 358                      | 10 165  | 431 444          | 1 188 967        |
| Acting Director of Community Services - Boozi, YT        | 228 099                      | 30 478  | 22 615           | 281 192          |
| Director of Technical Services - Mutangadura, S          | 53 126                       | -   | -                | 53 126           |
| Director of Technical Services - Nomandela, S            | 520 630                      | 6 815   | 167 003          | 694 448          |
| Acting Director of Technical Services - Matoto, TE       | 499 126                      | 42 907  | 62 630           | 604 663          |
|  | <b>6 905 690</b>             | <b>207 515</b>                                  | <b>1 899 853</b> | <b>9 013 058</b> |

##### 2020

| Position   | Salary and acting allowances | Contributions to UIF, Medical and Pension Funds | Other allowances | Total            |
|--|------------------------------|---|------------------|------------------|
| Municipal Manager - Msweli, X                            | 1 029 528                    | 13 953  | 398 521          | 1 442 002        |
| Director of Corporate Services - Mbebe, MWM              | 837 887                      | 11 844  | 329 653          | 1 179 384        |
| Director of Community Services - Twalo, NL               | 737 125                      | 11 711  | 430 415          | 1 179 251        |
| Chief Financial Officer - Mulaudzi, KL                   | 951 595                      | 12 554  | 285 262          | 1 249 411        |
| Acting Chief Financial Officer - Singeni, V              | 79 858                       | 7 377   | 7 287            | 94 522           |
| Director of Local Economic Development - Zonke, NP       | 574 424                      | 7 644   | 190 038          | 772 106          |
| Acting Director of Local Economic Development - Maki, MI | 348 537                      | 27 432  | 32 628           | 408 597          |
| Director of Technical Services - Mutangadura, S          | 744 582                      | 9 993   | 237 754          | 992 329          |
|  | <b>5 303 536</b>             | <b>102 508</b>                                  | <b>1 911 558</b> | <b>7 317 602</b> |

Salaries, allowances and benefits of the political office-bearers and councillors are within the upper limits of the framework envisaged in section 219 of the Constitution.

#### Awards to close family members of persons in the service of the state

| Supplier Name                              | Related party | Relationship        | Award   |
|--|---------------|---------------------|---------|
| SPS Creative Events and Trading Enterprise | S B Vayeke    | Spouse              | 40 500  |
| SMS ICT Choice t/a ICT Choice              | N J Maqula    | Spouse (S S Maqula) | 148 209 |
| Yobha Trading Enterprise                   | Y M Magada    |                     | 29 500  |
| Ebusha General Trading                     | K Yankey      | Daughter (N Yankey) | 138 344 |

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### 52. Distribution losses

#### Electricity losses (units)

Electricity units (kWh) purchased from Eskom

Electricity units (kWh) sold to consumers

65 631 207

(52 219 874)

**13 411 333**

66 138 547

(55 300 039)

**10 838 508**

Electricity losses for the financial year amounted to 20.43% (2020: 16.39%) of the electricity consumed in the area. The Rand value of these electricity losses for the current financial year is R 16 475 822 (2020: R 12 540 154).

Technical losses are based on Transformer Efficiency and Line losses. The average transformer efficiency is 95% (industry average) therefore 1.8% of the losses are due to transformer losses (Hysteresis + Eddy-current). Line losses constitute approximately 3.1% of total loss. These remaining losses are attributable to electricity line losses within the electricity network infrastructure due to faulty meters and theft.

### 53. Going concern

The Covid-19 pandemic has continued in the 2021/2022 financial year with the 2nd and 3rd wave impacting the performance of the municipality due to lock down restrictions, limited staffing due to infections or close contact with infected people.

Despite these challenges, the municipality has continued to deliver on its mandate. For this reason, the municipality's fixed asset base has not been impaired because of downtime or lack of use. However, it is recognised that the pandemic has had an impact on its consumer base as is evidenced in the write off of debt in the current year. The principles for the impairment of receivables ensures that the value of receivables is appropriate to collection expectations.

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 958 246 700 and that the municipality's current liabilities exceed its current assets by R 239 447 527. The municipality has incurred a deficit of R 66 492 071 in the current financial year.

The High Court of South Africa entered a judgement against the municipality with regard to outstanding amounts due to Eskom in which the municipality is required to repay the debt in terms of the agreed payment plan.

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 municipal manager continue to procure funding for the ongoing operations for the municipality.

### 54. Segment information

#### General information

#### Identification of segments

The municipality operates within four distinctive segments. The municipality has appointed a director to manage and control the performance of each segment. The segments' activities include administrative and/or revenue generating functions. The Municipal Manager's office, Corporate Services and the Finance Office have been aggregated because these functions share in the same regulatory environment and offer the same internal service. The key sources of revenue include levying of taxes, provision of electricity and waste removal services and agency fees. Management report on these distinct segments on a monthly basis.

The municipality is able to report on the revenue and expenditure per segment. However, due to the limitation in the financial system, the municipality is unable to report on the segmental assets and liabilities in a meaningful and cost effective way.

The accounting policies applied when compiling segment reports are consistent with those applied to the municipality as a whole.

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### 54. Segment information (continued)

#### Segment surplus or deficit per department

|   | Administrative support | Community Services | Technical Services | LED Services     | Total               |
|---|------------------------|--------------------|--------------------|------------------|---------------------|
| <b>Revenue</b>  |                        |                    |                    |                  |                     |
| Revenue from exchange transactions: Service charges                     | -                      | 27 301 863         | 97 576 585         | -                | 124 878 448         |
| Revenue from exchange transactions: Rentals                             | 20 545                 | 24 747             | 1 224 753          | 112 476          | 1 382 521           |
| Revenue from exchange transactions: Agency Services                     | -                      | 2 377 709          | -                  | -                | 2 377 709           |
| Revenue from exchange transactions: Interest income                     | 13 621 097             | -                  | -                  | -                | 13 621 097          |
| Revenue from exchange transactions: Sundry fees and income              | 386 766                | 2 724 863          | 521 570            | 279 517          | 3 912 716           |
| Revenue from exchange transactions: Fair value adjustments              | -                      | -                  | 815 000            | -                | 815 000             |
| Revenue from non-exchange transactions: Property rates                  | 45 118 524             | -                  | -                  | -                | 45 118 524          |
| Revenue from non-exchange transactions: Government grants and subsidies | 55 679 000             | 3 930 820          | 24 327 000         | -                | 83 936 820          |
| Property, plant and equipment donation received                         | -                      | 26 154 565         | -                  | -                | 26 154 565          |
| Revenue from non-exchange transactions: Fines                           | 45 529                 | 799                | -                  | -                | 46 328              |
| <b>Total segment revenue</b>  | <b>114 871 461</b>     | <b>62 515 366</b>  | <b>124 464 908</b> | <b>391 993</b>   | <b>302 243 728</b>  |
| <b>Expenditure</b>  |                        |                    |                    |                  |                     |
| Employee related costs  | 34 812 927             | 25 476 511         | 22 903 420         | 9 233 110        | 92 425 968          |
| Remuneration of councillors   | 7 931 113              | -                  | -                  | -                | 7 931 113           |
| Depreciation and asset impairment                                       | -                      | -                  | 100 246 693        | -                | 100 246 693         |
| Finance charges   | 14 809 348             | -                  | -                  | -                | 14 809 348          |
| Lease rentals   | 9 183                  | 45 835             | 47 768             | 14 269           | 117 055             |
| Bad debts written off   | -                      | 9 004 940          | -                  | -                | 9 004 940           |
| Bulk purchases  | -                      | -                  | 80 998 169         | -                | 80 998 169          |
| Contracted Services   | 17 147 053             | -                  | -                  | 393 681          | 17 540 734          |
| Actuarial losses  | 482 791                | -                  | -                  | -                | 482 791             |
| General expenses  | 21 882 039             | 4 023 790          | 3 548 193          | 183 324          | 29 637 346          |
| Repairs & maintenance   | 11 791                 | 268 570            | 4 313 150          | 39 848           | 4 633 359           |
| Loss on disposal of PPE   | -                      | -                  | 10 916 734         | -                | 10 916 734          |
| <b>Total segment expenditure</b>  | <b>97 086 245</b>      | <b>38 819 646</b>  | <b>222 974 127</b> | <b>9 864 232</b> | <b>368 744 250</b>  |
| <b>Total segmental surplus/(deficit)</b>                                |                        |                    |                    |                  | <b>(66 500 522)</b> |

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### 54. Segment information (continued)

#### Information about geographical areas

The municipal area covers two major towns, namely Cradock and Middelburg along with a few smaller siding and villages. The municipality does not report by geographic segment other than for receivables from consumer debtors and debtors arising from exchange and non exchange transactions.

#### Receivables from gross consumer debtors, exchange and non exchange transactions by town

|              | Revenue from<br>service<br>charges | Revenue from<br>exchange<br>transactions | Revenue from<br>non-exchange<br>transactions | Other              |
|--------------|------------------------------------|--|--|--------------------|
| Cradock      | 77 964 744                         | 2 280 061                                | 72 332 719                                   | (4 370 633)        |
| Middelburg   | 31 862 319                         | 1 347 186                                | 22 283 604                                   | (1 195 395)        |
| <b>Total</b> | <b>109 827 063</b>                 | <b>3 627 247</b>                         | <b>94 616 323</b>                            | <b>(5 566 028)</b> |

#### Receivables from gross consumer debtors, exchange and non exchange transactions by ward

|                                 | Revenue from<br>service<br>charges | Revenue from<br>exchange<br>transactions | Revenue from<br>non-exchange<br>transactions | Other              |
|---------------------------------|------------------------------------|--|--|--------------------|
| Ward 1, 2, & 3 Lingelihle       | 46 185 623                         | 1 511 780                                | 28 488 424                                   | (779 134)          |
| Ward 4 Michausdal               | 6 794 304                          | 202 520                                  | 6 302 587                                    | (448 042)          |
| Ward 5 Cradock Town             | 20 579 751                         | 431 936                                  | 10 692 910                                   | (2 867 835)        |
| Ward 6 Hillside                 | 4 161 064                          | 125 833                                  | 24 392 148                                   | (241 779)          |
| Ward 7 Midros                   | 7 060 514                          | 143 475                                  | 4 340 217                                    | (228 381)          |
| Ward 8 Middelburg Town / Lusaka | 18 362 799                         | 1 143 215                                | 12 837 976                                   | (831 859)          |
| Ward 9 Kwanonzame               | 6 414 832                          | 68 034                                   | 5 765 268                                    | (140 704)          |
| Other                           | 268 176                            | 454                                      | 1 796 793                                    | (28 294)           |
| <b>Total</b>                    | <b>109 827 063</b>                 | <b>3 627 247</b>                         | <b>94 616 323</b>                            | <b>(5 566 028)</b> |

### 55. Prior period errors

#### Correction of trade payables and related expenditure

In the current year, it was found that the amounts due as reflected on one of the Eskom Statements relating to the provision of free basic electricity had not been recognised in the 2018/19 financial year and the charges and related interest charges in subsequent periods. The full liability was settled in the current financial year.

It was also found that the amounts due and related payments to Transnet for the prepaid electricity costs associated to electricity sales in Rosmead had not been correctly recognised in the 2018/2019 financial year and the charges and related interest charges in subsequent periods.

Lastly it was found that the amounts due to Eastern Cape Department of Transport had not been correctly recognised in the financial periods up to and including the 2018/19 financial year.

#### Correction of revenue and debtors accounts

During the year, the municipality processed corrections to the respective debtors' consumer accounts for various reasons, namely disagreements, reading and capture errors. In certain instances, the adjustments impacted on the provision for impairment of receivables.

# Inxuba Yethemba Local Municipality

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## Notes to the Annual Financial Statements

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### 55. Prior period errors (continued)

The correction of the above errors resulted in the following adjustments:

#### Statement of financial position

|  |             |
|--|-------------|
| Decrease in receivables from exchange transactions | (317 426)   |
| Increase in VAT receivable                         | 415 120     |
| Decrease in consumer debtors                       | (122 055)   |
| Increase in payables from exchange transactions    | (5 372 960) |
| Increase in deficit for the year                   | 668 509     |
| Opening Accumulated Surplus or Deficit             | 4 728 812   |
|  | <hr/>       |
|  | -           |

#### Statement of financial performance

|   |           |
|---|-----------|
| Decrease in service charges and rentals | 80 117    |
| Decrease in interest received           | 19 634    |
| Decrease in impairment losses           | (29 695)  |
| Increase in finance costs               | 85 024    |
| Decrease in repairs and maintenance     | (144 184) |
| Increase in general expenses            | 657 613   |
|   | <hr/>     |
|   | 668 509   |

#### Unauthorised expenditure

|                                 |             |
|---------------------------------|-------------|
| Opening balance                 | 253 790 496 |
| Adjustments made                | 620 326     |
| <b>Restated opening balance</b> | <hr/>       |
|                                 | 254 410 822 |

Unauthorised expenditure has been adjusted in the prior year as a product of prior year adjustments impacting the actual expenditure.

#### Investment property, heritage assets and property, plant and equipment

*Investment property:* During the year the municipality discovered and recorded investment properties amounting to R 2 900 000 which had been omitted in the previous years.

*Heritage Assets:* During the year the municipality recorded Shriner House under Heritage Assets at deemed cost of R 800 000 as a prior year adjustment.

*Property Plant and Equipment:* Prior year adjustments were made to Property Plant and Equipment due to: Derecognition of land where the municipality has no control, derecognition of certain projects which were recorded in both PPE and Work in Progress, Recognition of infrastructure assets and other moveable assets omitted in the previous years. The net effect of the changes amounted to a decrease in property, plant and equipment by R 13 540 441.

During the year numerous errors were identified in the investment property, heritage assets and property, plant and equipment registers. These errors were corrected as per below.

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## Notes to the Annual Financial Statements

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### 55. Prior period errors (continued)

#### Cost

|                                    |                     |
|------------------------------------|---------------------|
| Decrease in Buildings              | (1 512 842)         |
| Decrease in Plant and Machinery    | (298 749)           |
| Decrease in Furniture and Fittings | (247 230)           |
| Decrease in Motor Vehicles         | (725 587)           |
| Increase in Office Equipment       | 550 483             |
| Increase in Computer Equipment     | 97 532              |
| Increase in Infrastructure         | 4 761 908           |
| Decrease in Work in Progress       | (17 028 225)        |
|                                    | <b>(14 402 710)</b> |

#### Accumulated Depreciation

|  |                  |
|--|------------------|
| Decrease in accumulated depreciation on buildings              | (316 186)        |
| Decrease in accumulated depreciation on plant and machinery    | (239 217)        |
| Decrease in accumulated depreciation on Furniture and Fittings | (236 133)        |
| Decrease in accumulated depreciation Motor Vehicles            | (582 168)        |
| Increase in accumulated depreciation Office Equipment          | 451 150          |
| Increase in accumulated depreciation Computer Equipment        | 66 997           |
| Decrease in accumulated depreciation on Infrastructure         | (6 712)          |
|  | <b>(862 269)</b> |

#### Carrying Amount

|  |                     |
|--|---------------------|
| Decrease in net book value of buildings              | (1 196 656)         |
| Decrease in net book value of plant and machinery    | (59 532)            |
| Decrease in net book value of furniture and fittings | (11 097)            |
| Decrease in net book value of motor vehicles         | (143 419)           |
| Increase in net book value of office equipment       | 99 333              |
| Increase in net book value of computer equipment     | 30 535              |
| Increase in net book value of infrastructure         | 4 768 620           |
| Decrease in net book value of work in progress       | (17 028 225)        |
|  | <b>(13 540 441)</b> |

#### Statement of financial position

|   |              |
|---|--------------|
| Decrease in property, plant and equipment       | (13 540 441) |
| Increase in payables from exchange transactions | (109 582)    |
| Increase in deficit for the year                | 51 568       |
| Opening Accumulated Surplus or Deficit          | 13 598 455   |
|   | <b>-</b>     |

#### Statement of financial performance

|   |               |
|---|---------------|
| Decrease in depreciation and amortisation | (16 596)      |
| Increase in repairs and maintenance       | 68 164        |
|   | <b>51 568</b> |



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## Notes to the Annual Financial Statements

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### 55. Prior period errors (continued)

#### Commitments

The commitment expenditure has been adjusted in the prior year in light of better information made available regarding the nature of certain contracts.

#### Authorised capital expenditure

|                     | Community<br>assets | Infrastructure<br>assets |
|---------------------|---------------------|--------------------------|
| Previously reported | 24 401 268          | 27 999 515               |
| Adjustment          | (11 798 881)        | (22 140 627)             |
|                     | <b>12 602 387</b>   | <b>5 858 888</b>         |

#### Other commitments

|                     | Other     |
|---------------------|-----------|
| Previously reported | 643 161   |
| Adjustment          | (643 161) |
|                     | <b>-</b>  |

#### Total commitments

|                     |                   |
|---------------------|-------------------|
| Previously reported | 53 043 944        |
| Adjustment          | (34 582 669)      |
|                     | <b>18 461 275</b> |