



## **Sakhisizwe Local Municipality**

Annual Financial Statements  
for the year ended 30 June 2022

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## General Information

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### Legal form of entity

The entity functions as a local Municipality in terms of section 1 of the Local Government Municipal Structures Act (Act 117 of 1998) read with section 155 (1) of the Constitution of the republic of South Africa (Act 108 of 1996)

### Nature of business and principal activities

Sakhisizwe Local Municipality is a South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (No 117 of 1998). The municipality's operations are governed by:

- Municipal Finance Management Act (No 56 of 2003)
- Municipal Structures Act (No 117 of 1998)
- Municipal Systems Act (No 32 of 2000) and various other acts and regulations

### The following is included in the scope of operations

The principal activities of the municipality are:

- Provide democratic activities and accountable government
- Ensure sustainable service delivery to communities
- Provide social and economic development
- Provide basic service to the community

### Mayoral committee

Executive Mayor

Clr :B Ntsere - Mayor( term ended 8/11/21)

Clr B. Ponoshe Mayor from 26/11/21

Clr: K Faku (term ended 8/11/2021)

Clr N Mkati Speaker (from 23/11/2021)

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## General Information

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### Councillors

Clr A Mpakane  
Clr V Filana  
Clr Z J Phonoshe  
Clr W M Kumsha  
Clr T Tasana  
Clr: P Mahlombe  
Clr A Mbebe  
Clr M. J. Malungisa: PR (DA)  
Clr Z. Mbasane: (ANC) (term ended 8/11/2021)  
Clr M. Ngqayimbana: (ANC)(6/12/21)  
Clr T. Hoza: (ANC)(council term ended 8/11/2021)  
Clr M. Mxhonywa: (ANC)  
Clr A. Sondlo: (ANC)  
Clr: N Miso  
Clr:L Thulelo  
Clr: N Nopote  
Clr: Mayongo  
Clr: ZA Mose - (council term ended 8/11/2021)Clr: N Stofile – (9/11/2021)  
Clr: TT Doda - (council term ended 8/11/2021)  
Clr: A Lande (term ended 8/11/2021)  
Clr: M Ngqayimbana (from 6/12/21)  
Clr: N Stofile – (9/11/2021)  
Clr: Y Ndiki –(term ended 8/11/2021)

### Grading of local authority

Category B  
Grade 1

### Accounting Officer

Nomthandazo Mazwayi  
(Appointed 1 October 2020)

### Chief Finance Officer (CFO)

Busisiwe Lubelwana  
(Appointed 14 June 2021)

### Registered office

Erf 5556  
Umtata Road  
Cala  
5455

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## General Information

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<b>Business address</b>	Erf 5556 Umtata Road Cala 5455
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Auditor-General of South Africa
<b>Attorneys</b>	Ntsiki Pakade Attorneys DM Lukhozi Attorneys
<b>Relevant Legislation</b>	Constitution of the Republic of South Africa (Act No. 108 of 1996) Municipal Finance Management Act (Act 56 of 2003) Division of Revenue Act The Income Tax Act (Act No. 58 of 1962) Value Added Tax Act (Act No. 117 of 1998) Municipal Structures Act (Act No. 32 of 2000) Water Service Act (Act No.108 of 1997) Housing Act (Act No. 107 of 1997) Municipal Property Rates Act (Act No. 6 of 2004) Electricity Act (Act No. 41 of 1987) Skills Development Levies Act (Act No. 9 of 1999) Employment Equity Act (Act No. 55 of 1998) Unemployment Insurance Act (Act No. 30 of 1966) Basic Conditions of Employment Act (Act No. 75 of 1997) Municipal System Amendment Act (Act No. 7 of 2011) Municipal Planning and Performance Management Regulations Municipal Supply Chain Management Regulations Municipal Collective Agreements Municipal Budget and Reporting Regulations MFMA Circulars and Regulations

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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The reports and statements set out below comprise the annual financial statements presented to the Auditor General:

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GRAP	Generally Recognised Accounting Practice
FMG	Financial Management Grant
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
EPWP	Expanded Public Works Programme

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## 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 Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

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

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


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

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

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

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

The annual financial statements set out on page 6, which have been prepared on the going concern basis, were approved by the Accounting Officer on 31 August 2022 and were signed on its behalf by:

  
\_\_\_\_\_  
Accounting Officer  
NC Mazwayi

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	9	10 138 803	19 083 395
Inventories	3	894 019	574 830
Other receivables	6	502 977	3 611 846
Receivables from non-exchange transactions	5	13 296 948	17 831 944
VAT receivable	7	1 896 206	1 321 638
Receivables from exchange transactions	4	17 910 621	7 590 078
Deposit: Bond Security	8	4 500 000	4 500 000
		<b>49 139 574</b>	<b>54 513 731</b>
<b>Non-Current Assets</b>			
Investment property	10	12 267 841	12 272 661
Property, plant and equipment	11	241 934 091	223 315 905
		<b>254 201 932</b>	<b>235 588 566</b>
<b>Total Assets</b>		<b>303 341 506</b>	<b>290 102 297</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Finance lease obligation	12	-	283 247
Payables from exchange transactions	13	17 409 515	20 304 581
Consumer deposits	14	83 665	83 665
Employee benefit obligation	15	461 000	462 000
Unspent conditional grants and receipts	16	160 767	11 677 630
Chris Hani District Municipality loan	18	2 000 000	2 000 000
		<b>20 114 947</b>	<b>34 811 123</b>
<b>Non-Current Liabilities</b>			
Employee benefit obligation	15	2 698 000	2 675 000
Provisions	17	16 105 640	12 991 825
		<b>18 803 640</b>	<b>15 666 825</b>
<b>Total Liabilities</b>		<b>38 918 587</b>	<b>50 477 948</b>
<b>Net Assets</b>		<b>264 422 919</b>	<b>239 624 349</b>
Accumulated surplus		264 422 919	239 624 349
<b>Total Net Assets</b>		<b>264 422 919</b>	<b>239 624 349</b>

\* See Note 38

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# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	20	18 953 434	11 406 249
Other income	21	3 036 835	9 744 828
Interest received - investment	22	8 058 818	4 721 176
Actuarial gains		390 000	358 000
<b>Total revenue from exchange transactions</b>		<b>30 439 087</b>	<b>26 230 253</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	23	6 964 476	5 493 710
<b>Transfer revenue</b>			
Government grants & subsidies	24	110 631 635	116 656 571
Fines, Penalties and Forfeits	46	16 040	53 790
<b>Total revenue from non-exchange transactions</b>		<b>117 612 151</b>	<b>122 204 071</b>
<b>Total revenue</b>	19	<b>148 051 238</b>	<b>148 434 324</b>
<b>Expenditure</b>			
Employee related costs	25	(42 853 546)	(40 718 316)
Remuneration of councillors	26	(7 046 867)	(7 098 523)
Depreciation and amortisation	27	(8 824 066)	(8 939 438)
Finance costs	28	(2 393 282)	(359 883)
Impairment loss	29	(15 272 804)	(8 170 419)
Bulk purchases	30	(15 839 634)	(13 429 890)
Contracted services	31	(16 184 689)	(14 451 482)
General Expenses	32	(14 916 446)	(17 900 434)
<b>Total expenditure</b>		<b>(123 331 334)</b>	<b>(111 068 385)</b>
<b>Surplus for the year</b>		<b>24 719 904</b>	<b>37 365 939</b>

\* See Note 38

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# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	193 404 352	193 404 352
Adjustments		
Prior year adjustments	8 854 058	8 854 058
<b>Balance at 01 July 2020 as restated*</b>	<b>202 258 410</b>	<b>202 258 410</b>
Changes in net assets		
Surplus for the year	37 365 939	37 365 939
Total changes	37 365 939	37 365 939
Opening balance as previously reported	228 070 303	228 070 303
Adjustments		
Prior year adjustments	11 554 046	11 554 046
<b>Restated* Balance at 01 July 2021 as restated*</b>	<b>239 703 015</b>	<b>239 703 015</b>
Changes in net assets		
Surplus for the year	24 719 904	24 719 904
Total changes	24 719 904	24 719 904
<b>Balance at 30 June 2022</b>	<b>264 422 919</b>	<b>264 422 919</b>

Note(s)

\* See Note 38

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services		28 890 207	15 112 149
Government grants		99 241 769	112 763 066
Interest income		810 640	4 721 176
		<u>128 942 616</u>	<u>132 596 391</u>
<b>Payments</b>			
Employee costs		(49 907 413)	(47 219 312)
Suppliers		(58 370 396)	(50 568 434)
Finance costs		(401 118)	(328 145)
		<u>(108 678 927)</u>	<u>(98 115 891)</u>
<b>Net cash flows from operating activities</b>	34	<u><b>20 263 689</b></u>	<u><b>34 480 500</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	11	<u>(29 004 223)</u>	<u>(18 720 820)</u>
<b>Cash flows from financing activities</b>			
Finance lease payments		<u>(283 247)</u>	<u>(303 201)</u>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<u><b>(9 023 781)</b></u>	<u><b>15 456 479</b></u>
Cash and cash equivalents at the beginning of the year		<u>19 083 395</u>	<u>3 626 916</u>
<b>Cash and cash equivalents at the end of the year</b>	9	<u><b>10 059 614</b></u>	<u><b>19 083 395</b></u>

\* See Note 38

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from exchange transactions</b>						
Service charges	14 032 759	-	14 032 759	18 953 434	4 920 675	A
Other income	4 741 214	-	4 741 214	3 036 835	(1 704 379)	B
Interest received - investment	5 956 050	-	5 956 050	8 058 818	2 102 768	C
<b>Total revenue from exchange transactions</b>	<b>24 730 023</b>	<b>-</b>	<b>24 730 023</b>	<b>30 049 087</b>	<b>5 319 064</b>	
<b>Revenue from non-exchange transactions</b>						
<b>Taxation revenue</b>						
Property rates	12 871 082	-	12 871 082	6 964 476	(5 906 606)	D
<b>Transfer revenue</b>						
Government grants & subsidies	128 536 643	-	128 536 643	110 631 635	(17 905 008)	E
Fines, Penalties and Forfeits	1 512 743	-	1 512 743	16 040	(1 496 703)	
<b>Total revenue from non-exchange transactions</b>	<b>142 920 468</b>	<b>-</b>	<b>142 920 468</b>	<b>117 612 151</b>	<b>(25 308 317)</b>	
<b>Total revenue</b>	<b>167 650 491</b>	<b>-</b>	<b>167 650 491</b>	<b>147 661 238</b>	<b>(19 989 253)</b>	
<b>Expenditure</b>						
Employee costs	(37 295 887)	-	(37 295 887)	(42 853 546)	(5 557 659)	F
Remuneration of councillors	(5 126 939)	-	(5 126 939)	(7 046 867)	(1 919 928)	G
Depreciation and amortisation	(10 831 500)	-	(10 831 500)	(8 824 066)	2 007 434	H
Finance costs	(561 589)	-	(561 589)	(2 393 282)	(1 831 693)	I
Debt Impairment	(3 980 262)	-	(3 980 262)	(15 272 804)	(11 292 542)	J
Bulk purchases	(15 552 710)	100 001	(15 452 709)	(15 839 634)	(386 925)	K
Contracted Services	(17 860 891)	(530 028)	(18 390 919)	(16 184 689)	2 206 230	L
General Expenses	(18 532 074)	(4 056 601)	(22 588 675)	(14 916 446)	7 672 229	M
<b>Total expenditure</b>	<b>(109 741 852)</b>	<b>(4 486 628)</b>	<b>(114 228 480)</b>	<b>(123 331 334)</b>	<b>(9 102 854)</b>	
<b>Operating surplus</b>	<b>57 908 639</b>	<b>(4 486 628)</b>	<b>53 422 011</b>	<b>24 329 904</b>	<b>(29 092 107)</b>	
Actuarial gains/losses	-	-	-	390 000	390 000	N
<b>Surplus for the year</b>	<b>57 908 639</b>	<b>(4 486 628)</b>	<b>53 422 011</b>	<b>24 719 904</b>	<b>(28 702 107)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>57 908 639</b>	<b>(4 486 628)</b>	<b>53 422 011</b>	<b>24 719 904</b>	<b>(28 702 107)</b>	

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Position</b>						
<b>Assets</b>						
<b>Current Assets</b>						
Inventories	639 094	-	639 094	894 019	254 925	
Other receivables	-	-	-	2 121 366	2 121 366	
Receivables from non-exchange transactions	125 180 276	4	125 180 280	13 296 948	(111 883 332)	
VAT receivable	-	-	-	1 896 206	1 896 206	
Consumer debtors	(418 952)	837 922	418 970	17 910 621	17 491 651	
Deposit: Bond Security	-	-	-	4 500 000	4 500 000	
Cash and cash equivalents	26 300 888	4	26 300 892	10 138 803	(16 162 089)	
	<b>151 701 306</b>	<b>837 930</b>	<b>152 539 236</b>	<b>50 757 963</b>	<b>(101 781 273)</b>	
<b>Non-Current Assets</b>						
Investment property	13 541 084	-	13 541 084	12 267 841	(1 273 243)	
Property, plant and equipment	242 618 000	4 587 324	247 205 324	241 934 091	(5 271 233)	
	<b>256 159 084</b>	<b>4 587 324</b>	<b>260 746 408</b>	<b>254 201 932</b>	<b>(6 544 476)</b>	
<b>Total Assets</b>	<b>407 860 390</b>	<b>5 425 254</b>	<b>413 285 644</b>	<b>304 959 895</b>	<b>(108 325 749)</b>	
<b>Liabilities</b>						
<b>Current Liabilities</b>						
Payables from exchange transactions	(72 941 196)	91 864 466	18 923 270	24 346 916	5 423 646	
Consumer deposits	822 814	2	822 816	83 665	(739 151)	
Employee benefit obligation	-	-	-	461 000	461 000	
Unspent conditional grants and receipts	-	-	-	160 767	160 767	
Provisions	23 609 569	3	23 609 572	-	(23 609 572)	
Chris Hani District Municipality loan	548 330	-	548 330	2 000 000	1 451 670	
	<b>(47 960 483)</b>	<b>91 864 471</b>	<b>43 903 988</b>	<b>27 052 348</b>	<b>(16 851 640)</b>	
<b>Non-Current Liabilities</b>						
Employee benefit obligation	-	-	-	2 698 000	2 698 000	
Provisions	23 856 970	6	23 856 976	16 105 640	(7 751 336)	
Chris Hani District Municipality Loan	604 509	(15)	604 494	-	(604 494)	
	<b>24 461 479</b>	<b>(9)</b>	<b>24 461 470</b>	<b>18 803 640</b>	<b>(5 657 830)</b>	
<b>Total Liabilities</b>	<b>(23 499 004)</b>	<b>91 864 462</b>	<b>68 365 458</b>	<b>45 855 988</b>	<b>(22 509 470)</b>	
<b>Net Assets</b>	<b>431 359 394</b>	<b>(86 439 208)</b>	<b>344 920 186</b>	<b>259 103 907</b>	<b>(85 816 279)</b>	
<b>Reserves</b>						
Accumulated surplus	431 359 394	(86 439 208)	344 920 186	264 422 922	(80 497 264)	

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Cash Flow Statement</b>						
<b>Cash flows from operating activities</b>						
<b>Receipts</b>						
Sale of goods and services	20 490 402	-	20 490 402	1 140 478	(19 349 924)	
Grants	117 033 909	-	117 033 909	81 295 102	(35 738 807)	
Interest income	6 042 039	-	6 042 039	6 883 264	841 225	
Other receipts	6 264 558	-	6 264 558	-	(6 264 558)	
	<b>149 830 908</b>	<b>-</b>	<b>149 830 908</b>	<b>89 318 844</b>	<b>(60 512 064)</b>	
<b>Payments</b>						
Employee costs and Suppliers	(186 085 977)	75 047 644	(111 038 333)	(73 029 806)	38 008 527	
Finance costs	(708 567)	146 976	(561 591)	(479 533)	82 058	
	<b>(186 794 544)</b>	<b>75 194 620</b>	<b>(111 599 924)</b>	<b>(73 509 339)</b>	<b>38 090 585</b>	
<b>Net cash flows from operating activities</b>	<b>(36 963 636)</b>	<b>75 194 620</b>	<b>38 230 984</b>	<b>15 809 505</b>	<b>(22 421 479)</b>	
<b>Cash flows from investing activities</b>						
Purchase of property, plant and equipment	(35 292 443)	-	(35 292 443)	(23 167 785)	12 124 658	
Proceeds from sale of property, plant and equipment	-	-	-	253 994	253 994	
<b>Net cash flows from investing activities</b>	<b>(35 292 443)</b>	<b>-</b>	<b>(35 292 443)</b>	<b>(22 913 791)</b>	<b>12 378 652</b>	
Net increase/(decrease) in cash and cash equivalents	(72 256 079)	75 194 620	2 938 541	(7 104 286)	(10 042 827)	
Cash and cash equivalents at the beginning of the year	3 626 899	41	3 626 940	19 083 395	15 456 455	
<b>Cash and cash equivalents at the end of the year</b>	<b>(68 629 180)</b>	<b>75 194 661</b>	<b>6 565 481</b>	<b>11 979 109</b>	<b>5 413 628</b>	

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Comparison of Budget and Actual Amounts

### Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
a	Service charges	Increase in customer base				
c	Other income	Direct income- less revenue collected during the financial				
d	Interest received - investment	Interest received - investment - increase in bank balance				
e	Property rates	General valuation incompleteness				
f	Government grants & subsidies	Denied rollover application				
g	Fines, Penalties and Forfeits	Classification of income				
h	Employee costs	Annual increment and increase new appointees				
i	Remuneration of councillors	Implementation of upperlimits and backpay which was not budgeted for				
j	Depreciation and amortisation	Disposal of assets				
k	Finance costs	This is due interest paid in an capital assets due to penalties				
l	Debt Impairment	Due historical lesson bases a debt impairment calculation were derived				
m	Bulk purchases	less than 10%				
n	Contracted Services	Due CPI increased and implementation of municipalmoperations				
o	General Expenses	Cashflow limitations				
p	Inventories	Purchase made during the year				
q	Other receivables	Not budgeted for				
	Receivables from non-exchange	Payments correctly allocated				
	VAT receivable	Not budgeted for				
	Consumer debtors	Reluctance in payment result in increase				
	Cash and cash equivalents	Cashflow limitations				
	Investment property	Less than 10%				
	Property, plant and equipment	Impairment of assets due assets condition				
	Payables from exchange transaction	Due to cashflow limitation				
	Consumer deposits	Few conventional prepaid and Hall refunds paid				
	Employee benefit obligation	statistics in employee movemet				
	Unspent conditional grants and receipts	Not budgeted , grants revenue conditions met				
	Provisions	Increase due to change in calculated provision liability				
	Chris Hani District Municipality loan	Cashflow limitation				
	Employee benefit obligation -	statistics in employee movemet				
	Chris Hani District Municipality Loan					

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

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

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

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

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 Materiality

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

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

Materiality is determined as 1% of total operating expenditure. This materiality is from management's perspective and does not correlate with the auditor's materiality.

#### 1.3 Significant judgements and sources of estimation uncertainty

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

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

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

The calculation in respect of the impairment of debtors is based on an assessment of the extent to which debtors have defaulted on payments already due, and an assessment of their ability to make payments based on their creditworthiness. This was performed per service-identifiable categories across all classes of debtors.

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

#### Provisions and Contingent Liabilities

Management judgement is required when recognising and measuring provisions and when measuring contingent liabilities. Provisions are discounted where the time value effect is material.

#### Provision for Landfill Sites:

The provision for rehabilitation of the landfill site is recognised as and when the environmental liability arises. The provision is calculated by a qualified environmental engineer. The provision represents the net present value at the reporting date of the expected future cash flows to rehabilitate the landfill site. To the extent that the obligations relate to an asset, it is capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are recognised in the Statement of Financial Performance.

Management referred to the following when making assumptions regarding provisions:

- Professional engineers were utilised to determine the cost of rehabilitation of landfill sites as well as the remaining useful life of each specific landfill site.

#### Provision for Staff leave:

Staff leave is accrued to employees according to collective agreements. Provision is made for the full cost of accrued leave at reporting date. This provision will be realised as employees take leave or when employment is terminated.

#### Provision for Performance bonuses:

The provision for performance bonuses represents the best estimate of the obligation at yearend and is based on historic patterns of payment of performance bonuses. Performance bonuses are subject to an evaluation by Council.

#### Componentisation of Infrastructure assets:

All infrastructure assets are unbundled into their significant components in order to depreciate all major components over the expected useful lives. The cost of each component is estimated based on the current market price of each component, depreciated for age and condition and recalculated to cost at the acquisition date if known or to the date of initially adopting the standards of GRAP.

#### Contingent liabilities and Contingent assets:

A contingent liability is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Municipality. A contingent liability could also be a present obligation that arises from past events, but is not recognised because it is not probable that an outflow of resources embodying economic benefits will be required to the obligation or the amount of the obligation cannot be measured with sufficient reliability.

The Municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the probability of an outflow of resources embodying economic benefits or service potential is remote. A contingent asset is disclosed where the inflow of economic benefits or service potential is probable.

Management judgement is required when recognising and measuring contingent liabilities.



# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

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

The useful lives of property, plant and equipment are based on management's estimation. Infrastructure's useful lives are based on technical estimates of the practical useful lives for the different infrastructure types, given engineering technical knowledge of the infrastructure types and service requirements. For other assets and buildings management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement 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.

Management referred to the following when making assumptions regarding useful lives and residual values of property, plant and equipment.

- The useful life of movable assets was determined using the age of similar assets available for sale in the active market. Discussions with people within the specific industry were also held to determine useful lives.
- Local Government Industry Guides was used to assist with the deemed cost and useful life of infrastructure assets. The Municipality referred to buildings in other municipal areas to determine the useful life of buildings. The Municipality also consulted with engineers to support the useful life of buildings, with specific reference to the structural design of buildings.

#### Post retirement benefits

The present value of the post retirement obligations and long service awards depend 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 expected rates of return on assets, future salary increases, mortality rates and future pension increases. Any changes in these assumptions will impact on the carrying amount of post retirement obligations.

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 5. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

#### Pre-paid electricity estimation:

Pre-paid electricity is recognised as income when the electricity is sold.

#### Post-retirement benefits

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

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

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

#### Investment property

The useful lives of investment property are based on management's estimation. Management considers the impact of technology, availability of capital funding, service requirements and required return on assets to determine the optimum useful life expectation, where appropriate. The estimation of residual values of assets is also based on management's judgement whether the assets will be sold or used to the end of their economic lives, and in what condition they will be at that time.

Management referred to the following when making assumptions regarding useful lives and valuation of investment property:

- The Municipality referred to buildings in other municipal areas to determine the useful life of buildings.
- The Municipality also consulted with professional engineers and qualified valuers to support the useful life of buildings.

#### Revenue Recognition

Accounting Policy 1.23.1 on Revenue from Non-Exchange Transactions and Accounting Policy 1.23.2 on Revenue from Exchange Transactions describes the conditions under which revenue will be recognised by management of the Municipality.

In making their judgement, management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: Revenue from Exchange Transactions and GRAP 23: Revenue from Non-Exchange Transactions, specifically, whether the Municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been performed. The management of the Municipality is satisfied that recognition of the revenue in the current year is appropriate.

### 1.4 Investment property

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

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

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

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

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.4 Investment property (continued)

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.

The cost of self-constructed investment property is measured at cost.

Transfers are made to or from investment property only when there is a change in use. For a transfer from investment property to owner occupied property, the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the Municipality accounts for such property in accordance with the policy stated under property, plant and equipment up to the date of change in use.

Investment property is measured using the cost model. Under the cost model, investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

#### Cost model

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

Item	Useful life
Land:	indefinite
Buildings:	30 years

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

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

### 1.5 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.

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

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

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

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

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Item	Depreciation method	Average useful life
Buildings	Straight-line	30
Plant and machinery	Straight-line	5 - 10
Furniture and fixtures	Straight-line	5 - 7
Motor vehicles	Straight-line	5
Office equipment	Straight-line	5 - 7
IT equipment	Straight-line	5 - 7
Infrastructure	Straight-line	25 - 50
Community	Straight-line	30
Community assets - Recreational Facilities	Straight-line	20 - 30
Community assets - Security	Straight-line	5
Electricity infrastructure	Straight-line	15 - 50

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

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

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

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

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

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

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

### 1.6 Financial instruments

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

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

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

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.6 Financial instruments (continued)

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

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

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.6 Financial instruments (continued)

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

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

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

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

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

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

#### 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:

<b>Class</b>	<b>Category</b>
Cash and cash equivalents	Financial asset measured at amortised cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost
VAT receivable	Financial asset measured at amortised cost
Long-term receivables	Financial asset measured at amortised cost
Non-current investments	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:

<b>Class</b>	<b>Category</b>
Borrowings	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost
Accrued leave pay	Financial liability measured at amortised cost
Payments received in advance	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other deposits	Financial liability measured at amortised cost

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

#### Initial recognition

The 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.

# **Sakhisizwe Local Municipality**

Annual Financial Statements for the year ended 30 June 2022

## **Accounting Policies**

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### **1.6 Financial instruments (continued)**

#### **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.

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.6 Financial instruments (continued)

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

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

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

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

#### Fair value measurement considerations

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

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

#### Reclassification

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

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

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

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

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

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

The 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.

Financial assets measured at amortised cost:



# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.6 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

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.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of 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.

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

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

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.6 Financial instruments (continued)

#### Presentation

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

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

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

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

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

### 1.7 Statutory receivables

#### Identification

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

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

Statutory receivables can arise from both exchange and non-exchange transactions.

#### Recognition

The municipality recognises statutory receivables as follows:

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

#### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Statutory receivables are recognised when the related revenue is recognised or when the receivable meets the definition of an asset.

#### Subsequent measurement

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

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

#### Impairment losses

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

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.7 Statutory receivables (continued)

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

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

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

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

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

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

#### Derecognition

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

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

### 1.8 Leases

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

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

# Sakhisizwe Local Municipality

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## Accounting Policies

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### 1.8 Leases (continued)

#### Finance leases - lessor

The municipality recognises finance lease receivables as assets on the statement of financial position. Such assets are presented as a receivable at an amount equal to the net investment in the lease.

Finance revenue is recognised based on a pattern reflecting a constant periodic rate of return on the municipality's net investment in the finance lease.

Under a finance lease, the Municipality recognises the lease payments to be received in terms of a lease agreement as an asset (receivable). The receivable is calculated as the sum of all the minimum lease payments to be received, plus any unguaranteed residual accruing to the Municipality, discounted at the interest rate implicit in the lease. The receivable is reduced by the capital portion of the lease instalments received, with the interest portion being recognised as interest revenue on a time proportionate basis. The accounting policies relating to de-recognition and impairment of financial instruments are applied to lease receivables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease revenue is recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined revenue and actual payments received will give rise to an asset. The Municipality recognises the aggregate cost of incentives as a reduction of rental revenue over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern over which the benefit of the leased asset is diminished.

#### Finance leases - lessee

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

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the Municipality. Property, plant and equipment or intangible assets (excluding licensing agreements for such items as motion picture films, video recordings, plays, manuscripts, patents and copyrights) subject to finance lease agreements are initially recognised at the lower of the asset's fair value and the present value of the minimum lease payments. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the Municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. The interest rate used is the interest rate implicit in the lease or the bank prime interest rate.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant and equipment, investment property or intangibles assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to de-recognition of financial instruments are applied to lease payables.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on a straight-line basis over the term of the relevant lease. The difference between the straight-lined expenses and actual payments made will give rise to a liability. The Municipality recognises the aggregate benefit of incentives as a reduction of rental expense over the lease term, on a straight-line basis unless another systematic basis is representative of the time pattern of the lessee's benefit from the use of the leased asset.

#### 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.

### 1.9 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.

# Sakhisizwe Local Municipality

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### 1.9 Inventories (continued)

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

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

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

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

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

The cost of inventories 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.

Redundant and slow-moving inventories are identified and written down.

The carrying amount of inventory is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

### 1.10 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

Useful life is either:

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

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

[Specify judgements made]

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

#### Designation

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

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

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

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

#### Identification

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

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

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

#### 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.

#### 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.

#### 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.

# Sakhisizwe Local Municipality

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## Accounting Policies

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

#### 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 deficit.

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.

#### Reversal of impairment loss

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

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

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

#### Redesignation

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

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

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

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

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

# Sakhisizwe Local Municipality

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### 1.11 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.

An asset's recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use. If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss and is recognised in the Statement of Financial Performance.

In assessing whether there is any indication that an asset may be impaired, the Municipality considers the following indications:

#### (a) External sources of information

- Cessation, or near cessation, of the demand or need for services provided by the asset.
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period or will take place in the near future, in the technological, legal or government policy environment in which the Municipality operates.

#### (b) Internal sources of information

- Evidence is available of physical damage of an asset
- Significant long-term changes with an adverse effect on the Municipality have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, or plans to dispose of an asset before the previously expected date.
- A decision to halt the construction of the asset before it is complete or in a usable condition.
- Evidence is available from internal reporting that indicates that the service performance of an asset is, or will be significantly worse than expected.



# Sakhisizwe Local Municipality

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

#### Value in use

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

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

#### Depreciated replacement cost approach

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

#### 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.

#### Service units approach

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, 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 deficit.

#### Reversal of an impairment loss

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

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

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

### 1.12 Employee benefits

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

Provision for Staff Leave:

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### 1.12 Employee benefits (continued)

- Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total amount of leave days due to employees at year-end and also on the total remuneration package of the employee.
- Accumulating leave is carried forward and can be used in future periods if the current period's entitlement is not used in full. All unused leave will be paid out to the specific employee at the end of that employee's employment term.
- Accumulated leave is vesting.

#### Staff Bonuses Accrued

Liabilities for staff bonuses are recognised as they accrue to employees. The liability at year end is based on bonus accrued at year-end for each employee.

#### Provision for Performance Bonuses

A provision, in respect of the liability relating to the anticipated costs of performance bonuses payable to Section 57 employees, is recognised as it accrue to Section 57 employees. Municipal entities' performance bonus provisions are based on the employment contract stipulations as well as previous performance bonus payment trends.

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

# Sakhisizwe Local Municipality

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### 1.12 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.

#### 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.

#### Post Retirement Defined Benefit Medical Obligations:

The Municipality provides post-retirement medical benefits by subsidizing the medical aid contributions of retired staff according to the rules of the medical aid funds. Council pays 70% as contribution and the remaining 30% is paid by the members. The entitlement to these benefits is usually conditional on the employee remaining in service up to retirement age and the completion of a minimum service period. The present value of the defined benefit liability is actuarially determined in accordance with GRAP 25 – “Employee Benefits” (using a discount rate applicable to high quality government bonds). The plan is unfunded.

These contributions are recognised in the Statement of Financial Performance when employees have rendered the service entitling them to the contribution.

The interest cost of the defined benefit obligation is recognised as finance cost in the Statement of Financial Performance, as it meets the definition of Interest Cost in GRAP 25.

The liability was calculated by means of the projected unit credit actuarial valuation method. The liability in respect of current pensioners is regarded as fully accrued, and is therefore not split between a past (or accrued) and future in-service element. The liability is recognised at the present value of the defined benefit obligation at the reporting date, minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly, plus any liability that may arise as a result of a minimum funding requirements.

#### Post Retirement Defined Benefit Long Service Awards

Long service awards are provided to employees who achieve certain pre-determined milestones of service within the Municipality. The Municipality's obligation under these plans is valued by independent qualified actuaries annually and the corresponding liability is raised. Payments are set-off against the liability, including notional interest, resulting from the valuation by the actuaries and are recognised in the Statement of Financial Performance as employee benefits upon valuation.

Actuarial gains and losses arising from the experience adjustments and changes in actuarial assumptions are recognised in the Statement of Financial Performance in the period that it occurs. These obligations are valued annually by independent qualified actuaries.

### 1.13 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.

# Sakhisizwe Local Municipality

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### 1.13 Provisions and contingencies (continued)

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.

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.

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

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

A constructive obligation to restructure arises only when an entity:

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 37.

### 1.14 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

### 1.15 Revenue from exchange transactions

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

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

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

#### Measurement

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

# Sakhisizwe Local Municipality

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### 1.15 Revenue from exchange transactions (continued)

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by .

### 1.16 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

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

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

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

### 1.17 Borrowing costs

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

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

### 1.18 Comparative figures

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

When the presentation or classification of items in the financial statements are amended, prior period comparative amounts are restated, unless a standard of GRAP does not require the restatement of comparative information. The nature and reason for the reclassification is disclosed. Where material accounting errors have been identified in the current year, the correction is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as practicable, and the prior year comparatives are restated accordingly.

### 1.19 Unauthorised expenditure

Unauthorised expenditure means:

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

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

### 1.20 Fruitless and wasteful expenditure

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

All expenditure relating to fruitless and wasteful expenditure 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.

### 1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.22 Segment information

A segment is an activity of an entity:

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

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.22 Segment information (continued)

- for which separate financial information is available.

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

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

#### Aggregated segments

The municipality operates in the Eastern Cape Province in two towns. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout Sakhisizwe Local Municipality were sufficiently similar to warrant aggregation.

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

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

- Segment 1 - Electricity services
- Segment 2 - Refuse services

### 1.23 Budget information

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

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

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

The approved budget covers the fiscal period from 2021/07/01 to 2022/06/30.

The 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.

Explanations for differences between the approved and final budget are included in the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1'000'000

Explanations for material differences between the final budget amounts and actual amounts are included the Statements of Comparison of Budget and Actual Amounts for all differences exceeding 10% or R1'000'000.

The presentation of budget information is prepared in accordance with GRAP 24 and based on the Municipal Budget and Reporting Regulations format. The disclosure of comparative information in respect of the previous period is not required in terms of GRAP 24.

### 1.24 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.

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.24 Related parties (continued)

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

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

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

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

Remuneration of management includes remuneration derived for services provided to the Municipality in their capacity as members of the management team or employees. Benefits derived directly or indirectly from the Municipality for services in any capacity other than as an employee or a member of management do not meet the definition of remuneration. Remuneration of management excludes any consideration provided solely as a reimbursement for expenditure incurred by those persons for the benefit of the Municipality.

The Municipality operates in an economic environment currently dominated by entities directly or indirectly owned by the South African government. As a result of the Constitutional independence of all three spheres of government in South Africa, only parties within the same sphere of government will be considered to be related parties. Only transactions with such parties which are not at arm's length and not on normal commercial terms are disclosed.

### 1.25 Events after reporting date

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

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

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

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

### 1.26 Unspent conditional government grants and receipts

Conditional government grants are subject to specific conditions. If these specific conditions are not met, the monies received are repayable.

Unspent conditional grants are financial liabilities that are separately reflected on the Statement of Financial Position. They represent unspent government grants, subsidies and contributions from government organs.

This liability always has to be cash-backed. The following provisions are set for the creation and utilisation of this creditor:

- Unspent conditional grants are recognised as a liability when the grant is received.
- When grant conditions are met an amount equal to the conditions met are transferred to revenue in the Statement of Financial Performance.
- The cash which backs up the creditor is invested as individual investment or part of the general investments of the Municipality until it is utilised.



# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>4. Receivables from exchange transactions (continued)</b>		
<b><u>Electricity</u></b>		
Current (0 -30 days)	1 358 337	687 819
31 - 60 days	257 258	599 945
61 - 90 days	378 726	499 087
+ 90 days	4 201 331	2 296 384
	<b>6 195 652</b>	<b>4 083 235</b>
<b><u>Refuse</u></b>		
Current (0 -30 days)	246 741	620 441
31 - 60 days	118 480	616 194
61 - 90 days	316 459	604 390
+ 90 days	10 771 640	1 457 970
	<b>11 453 320</b>	<b>3 298 995</b>
<b><u>Summary of debtors by customer classification</u></b>		
<b><u>Reconciliation of allowance for impairment</u></b>		
Balance at beginning of the year	(57 655 589)	(49 599 481)
Debt impairment written off against allowance	(3 126 938)	(8 056 108)
	<b>(60 782 527)</b>	<b>(57 655 589)</b>

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>5. Receivables from non-exchange transactions</b>		
Consumer debtors - Rates	13 296 948	17 831 944
<b><u>Trade and Other Receivables from non-exchange transactions:</u></b>		
Rates	62 096 748	54 623 341
Less: Provision for doubtful debts	(48 799 800)	(36 791 397)
	<b>13 296 948</b>	<b>17 831 944</b>
<b><u>Rates: Ageing</u></b>		
Current (0 - 30 days)	162 273	593 144
30 - 60 days	149 060	559 539
60 - 90 days	374 388	547 372
+ 90 days	12 611 227	16 131 889
	<b>13 296 948</b>	<b>17 831 944</b>
	-	-
<b>Total receivables from non-exchange transactions</b>	<b>13 296 948</b>	<b>17 831 944</b>
<b>6. Other receivables</b>		
Other receivables	-	60 388
Property Rental Debtors	260 903	409 931
Other receivables	242 074	3 141 527
	<b>502 977</b>	<b>3 611 846</b>
<b><u>Other receivables : Ageing</u></b>		
Current (0 - 30 days)	242 074	242 074
<b><u>Other trade debtors: Ageing</u></b>		
Current (0 - 30 days)	260 903	470 319
	-	-
<b>Total receivables from exchange transactions</b>	<b>502 977</b>	<b>3 611 846</b>

There were no Trade and other receivables pledged as security.

Consumer debtors are payable within 30 days. This credit period granted is considered to be consistent with the terms used in the public sector, through established practices and legislation. Discounting of trade and other receivables on initial recognition is not deemed necessary.

### 7. VAT receivable

VAT	1 896 206	1 321 638
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### 8. Deposit: Bond Security

The deposit relates to a security bond payment made to Ntsiki Pakade Attorneys for the case of Mrs Zoliswa Cynthia Morose vs Sakhisizwe Local Municipality.

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 9. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	4 305 543	418 027
Short-term deposits	5 833 260	18 665 368
	<b>10 138 803</b>	<b>19 083 395</b>

#### Credit quality of cash at bank and short term deposits, excluding cash on hand

The credit quality of cash at bank and short term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

#### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2022	30 June 2021	30 June 2020	30 June 2022	30 June 2021	30 June 2020
First National Bank - Primary Bank Account 6207-652-3135	3 305 924	407 995	572 820	3 341 111	418 027	557 213
First National Bank MIG 6207-657-7091	2 265 406	8 639 376	728 783	2 265 406	8 639 376	728 783
First National Bank Elliot Housing 6207-745-0056	5 203	861 034	1 126	5 203	861 034	1 126
First National bank Extension 15 6207-740-8203	2 162 306	1 013 615	2 246	2 162 306	1 013 615	2 247
First National Bank Extension 13&14 6207-745-1278	59 662	2 384 317	1 015	59 662	2 384 317	1 014
First National Bank FMG 6216 - 538 - 9464	15 621	-	24 630	15 621	-	24 630
First National Bank DME 6220-960-0776	531 401	75 842	653 448	531 401	75 842	653 447
First National Bank Operating Call Account 6216-534-1943	636 884	5 179 299	417 079	636 884	5 179 299	417 079
First National Bank Business NSTD Call 6280-822-2822	660 240	511 885	1 241 376	660 240	511 885	1 241 376
First National Bank- - 62910526914	99 385	-	-	99 385	-	-
First National Bank - 62935973968	361 584	-	-	361 584	-	-
<b>Total</b>	<b>10 103 616</b>	<b>19 073 363</b>	<b>3 642 523</b>	<b>10 138 803</b>	<b>19 083 395</b>	<b>3 626 915</b>

**Sakhisizwe Local Municipality**  
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**Notes to the Annual Financial Statements**

Figures in Rand

**10. Investment property**

	2022		2021	
	Cost / Valuation	Carrying value Accumulated depreciation and accumulated impairment	Cost / Valuation	Carrying value Accumulated depreciation and accumulated impairment
Investment property	12 325 781	12 267 841	12 325 781	12 272 661

**Reconciliation of investment property - 2022**

Investment property

Opening balance	Depreciation	Total
12 272 661	(4 820)	12 267 841

**Reconciliation of investment property - 2021**

Investment property

Opening balance	Depreciation	Total
12 277 500	(4 839)	12 272 661

**Pledged as security**

No Investment Properties were pledged as security:

NLM

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 10. Investment property (continued)

#### Investment property in the process of being constructed or developed

There is no Investment Property which is in the process of being constructed or developed.

There is no Investment Property that is taking a significantly longer period of time to complete than expected.

There is no Investment Property where construction or development has been halted

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.

There are no restrictions on the realisability of Investment Property or the remittance of revenue and proceeds of disposal.

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancements.

The market value of Investment Properties are significantly different from their cost disclosed. It is the policy of the municipality to disclose Investment Property on the cost basis, therefore these properties were not revalued to their relevant market values.

#### Amounts recognised in surplus or deficit

Rental revenue from Investment property	637 305	235 090
	<u>637 305</u>	<u>235 090</u>

**Sakhisizwe Local Municipality**  
Annual Financial Statements for the year ended 30 June 2022  
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Figures in Rand

**11. Property, plant and equipment**

	2022			2021		
	Cost/ Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost/ Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	23 466 597	-	23 466 597	23 466 597	-	23 466 597
Buildings	8 914 614	(2 970 631)	5 943 983	8 551 084	(2 672 527)	5 878 557
Plant and machinery	11 975 219	(9 853 130)	2 122 089	10 503 667	(9 572 556)	931 111
Furniture and fixtures	2 158 386	(1 730 789)	427 597	2 249 308	(1 733 634)	515 674
Motor vehicles	15 917 710	(12 551 173)	3 366 537	15 917 710	(11 875 716)	4 041 994
IT equipment	2 701 787	(1 710 614)	991 173	2 630 066	(1 582 674)	1 047 392
Infrastructure	286 381 576	(127 740 344)	158 641 232	263 545 674	(120 359 440)	143 186 234
Community	53 162 114	(6 187 231)	46 974 883	49 019 271	(4 770 925)	44 248 346
<b>Total</b>	<b>404 678 003</b>	<b>(162 743 912)</b>	<b>241 934 091</b>	<b>375 883 377</b>	<b>(152 567 472)</b>	<b>223 315 905</b>

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

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

	Opening balance	Additions	Disposals	WIP	Depreciation	Total
Land	23 466 597	-	-	-	-	23 466 597
Buildings	5 929 635	-	-	2 17 802	(268 880)	5 878 557
Plant and machinery	1 190 095	-	(3 264)	-	(255 720)	931 111
Furniture and fixtures	539 457	42 954	(9 737)	-	(57 000)	515 674
Motor vehicles	4 460 298	249 797	-	-	(668 101)	4 041 994
IT equipment	872 911	283 273	(2 930)	-	(105 862)	1 047 392
Infrastructure	134 616 558	18 144 796	-	(3 332 866)	(6 242 254)	143 186 234
Community	37 331 538	-	-	8 253 590	(1 336 782)	44 248 346
	<b>208 407 089</b>	<b>18 720 820</b>	<b>(15 931)</b>	<b>5 138 526</b>	<b>(8 934 599)</b>	<b>223 315 905</b>

#### Other information

Property, plant and equipment that is taking a significantly longer period of time to complete than expected

Roads (Delays are mainly due to heavy rains and cashflow challenges experienced by contractors)

7 439 099

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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2021

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

#### Reconciliation of Work-in-Progress 2022

	Included within Infrastructure	Included within Buildings	Total
Opening balance	14 734 277	9 852 026	24 586 303
Additions/capital expenditure	21 361 007	4 506 078	25 867 085
Transferred to completed items	(1 746 591)	(12 428 864)	(14 175 455)
	<u>34 348 693</u>	<u>1 929 240</u>	<u>36 277 933</u>

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

	Included within Infrastructure	Included within Buildings	Total
Opening balance	18 067 143	1 380 629	19 447 772
Additions/capital expenditure	14 811 930	8 471 397	23 283 327
Transferred to completed items	(18 144 796)	-	(18 144 796)
	<u>14 734 277</u>	<u>9 852 026</u>	<u>24 586 303</u>

#### Expenditure incurred to repair and maintain property, plant and equipment

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

Contracted services	<u>1 129 085</u>	<u>894 756</u>
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A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.



# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>12. Finance lease obligation</b>		
<b><u>Minimum lease payments due</u></b>		
- within one year	-	294 759
	-	294 759
less: future finance charges	-	(11 512)
<b>Present value of minimum lease payments</b>	-	<b>283 247</b>
<b><u>Present value of minimum lease payments due</u></b>		
- within one year	-	283 247

It is municipality policy to lease certain motor vehicles and equipment under finance leases.

### Market risk

Carrying value of assets of the municipality subject to a finance lease:

Motor vehicles	-	451 054
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It is the municipality's policy to lease certain motor vehicles, plant & equipment under finance leases. In terms of GRAP 13, when office equipment is rented over the major part of its useful life, the relevant lease is deemed a finance lease and the related liability raised and the asset capitalised.

The fair value of finance lease liabilities approximates their carrying amounts.

The average lease term was 5 years and the average effective borrowing rate was prime for the Wesbank motor vehicles and prime plus 4% fixed for the plant & machinery. No escalation clause is contained in the lease agreements. Ownership on the vehicles will transfer to the municipality at the end of the lease term. Ownership for the office equipment remains with the lessor. No security has been offered by the municipality for the leased assets. Bell Equipment stand security for the plant & equipment.

Total finance costs paid R0 .

### **13. Payables from exchange transactions**

Trade payables	8 309 238	9 512 495
Debtors with credit balances	1 408 011	1 651 419
Accrued leave pay	3 802 554	3 433 500
Accrued bonus	799 098	764 553
Retentions	3 081 849	1 909 721
Hall & dam deposits	21 008	1 100
Other payables	(12 243)	3 031 793
	<b>17 409 515</b>	<b>20 304 581</b>

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 14. Consumer deposits

Electricity	83 665	83 665
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No guarantees are held in lieu of Electricity Deposits

The fair value of consumer deposits approximate their carrying value. Interest is not paid on these amounts.

### 15. Employee benefit obligations

#### Defined benefit plan

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

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(1 139 000)	(1 173 000)
Present value of the defined benefit obligation-partly or wholly funded	(2 020 000)	(1 964 000)
	(3 159 000)	(3 137 000)
 Non-current liabilities	 (2 698 000)	 (2 675 000)
Current liabilities	(461 000)	(462 000)
	(3 159 000)	(3 137 000)

The Municipality provides certain post-retirement health care benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the medical aid fund, with which the municipality is associated, a member is entitled to continued as a member of such medical aid fund on retirement, in which case the municipality is 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-employment benefits are provided to these employees.

The most recent actuarial valuation of plan assets and the present value of the defined obligation were carried out at 30 June 2022 by Mr. C Weiss. Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the projected unit credit method.

#### Long service award

Eligible employees at the beginning of the financial year:	121	137
New entries	-	10
Exits	(6)	(26)
Eligible employees as at 30 June 2022	115	121

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

2022

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### 15. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10,87 %	9,06 %
Expected increase in salaries	7,83 %	6,26 %
Expected pension increases	2,82 %	2,64 %

The basis used to determine the overall expected rate of return on assets is as follow: [provide details]

Discount Rate: GRAP 25 stipulates that the choice of this rate should be derived from high quality corporate bond yields. However, where the market in these bonds is not significant, the market yields on government bonds consistent with the estimated term of the post-employment liabilities should be used.

Consequently, a discount rate of 2022: 10.87 % (2021: 9.06%) per annum has been used. The corresponding index-linked yield at this term is 2022: 7.83 % (2021: 6.26%) These rates do not reflect any adjustment for taxation. These rates were deduced from the JSE Zero Coupon bond yield after the market close on 30 June.

Management has indicated that there are no long-term assets set aside off-balance sheet in respect of the Municipality's post employment health care liability

Expected rate of salary increases:

Average CPI + 1.5% (2020/2021: Feb 2019 - Jan 2020) + 1.5 per cent)

Impact of COVID - 19

It is difficult to estimate what impact the pandemic is likely to have on the Municipality's liability at this stage. There is still much uncertainty as to how it will affect mortality in the medium to long term, and what effect treatments and/or vaccines will have.

Once any long-term impacts of COVID-19 on the various valuation parameters becomes more evident, appropriate adjustments to the parameters will be feasible. In the meanwhile, any short-term impacts of actual experience being different to the current long-term assumptions will contribute to actuarial gain/loss items.

#### Other assumptions

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

	<u>One percenta ge point increase</u>	<u>One percenta ge point decrease</u>
Effect on the aggregate of the service cost and interest cost	248 000	266 000
Effect on defined benefit obligation	162 000	171 000

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

	2022	2021	2020	2019	2018
Defined benefit obligation	2 020 000	1 964 000	2 216 000	2 014 495	1 647 868
Surplus (deficit)	2 020 000	1 964 000	2 216 000	2 014 495	1 647 868
Experience adjustments on plan liabilities	357 000	362 000	274 000	161 761	212 957

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>16. Unspent conditional grants and receipts</b>		
<b><u>Unspent conditional grants and receipts comprises of:</u></b>		
<b><u>Unspent conditional grants and receipts</u></b>		
Municipal Disaster Recovery Grant	8 443	2 384 317
Intergrated National Eletrification Programme	134 786	53 600
Municipal Infrastructure Grant	-	8 378 689
EPWP	17 548	-
Environmental Affairs: Wattle Removal	(10)	861 024
	<u>160 767</u>	<u>11 677 630</u>

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 17. Provisions

#### Reconciliation of provisions - 2022

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	12 991 825	3 113 815	16 105 640

#### Reconciliation of provisions - 2021

	Opening Balance	Reduction due to re-measurement or settlement without cost to entity	Total
Environmental rehabilitation	20 149 569	(7 157 744)	12 991 825

The municipality has an obligation to rehabilitate the landfill sites of Carla and Elliot Landfill Sites.

The environmental rehabilitation provision represents the estimated costs to rehabilitate and close existing waste landfill sites. The provision is recognised at the present value of the expenditure expected to settle the obligation.

The valuation of the landfill site provision was done by EMS Advisory (Pty) Ltd, a company which specialises in infrastructure maintenance and environmental consultancy services to municipalities and the professional valuator on the project was Aiden Bowers PrEng, with extensive experience and expertise relevant for this type of work.

The future value of the rehabilitation of landfill sites obligation was calculated by inflating the non-current cost to an estimated future cost which is then discounted to present value. Interest rate used are 10% for Carla and 12.% for Elliot.

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

Because of the time value of money, provisions relating to cash outflows that arise soon after the reporting date are more onerous than those where cash outflows of the same amount arise later. Provisions are therefore discounted, where the effect is material to settle the obligation.

The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted.

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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### 17. Provisions (continued)

#### Key Assumptions

Elliot	Landfill	Site
Can't Show Elliot.PNG		

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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### 17. Provisions (continued)

Carla Landfill Site

Can't Show Carla landfill site.PNG

### 18. Chris Hani District Municipality Loan

The loan bears reference to a loan given by the Chris Hani District Municipality for financial assistance. The loan is to be paid over three installements, interest-free, with the final installment made on 30 June 2018. The Municipality has since defaulted on the loan due to cashflow problems, and there has the loan has not been renegotiated.

2 000 000

2 000 000

### 19. Revenue

Service charges	18 953 434	11 406 249
Other income	3 036 835	9 744 828
Interest received - investment	8 058 818	4 721 176
Property rates	6 964 476	5 493 710
Government grants & subsidies	110 631 635	116 656 571
Fines, Penalties and Forfeits	16 040	53 790
	<u>147 661 238</u>	<u>148 076 324</u>

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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### 19. Revenue (continued)

**The amount included in revenue arising from exchange transactions are as follows:**

Service charges	18 953 434	11 406 249
Other income	3 036 835	9 744 828
Interest received - investment	8 058 818	4 721 176
	<b>30 049 087</b>	<b>25 872 253</b>

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

**Taxation revenue**

Property rates	6 964 476	5 493 710
----------------	-----------	-----------

**Transfer revenue**

Government grants & subsidies	110 631 635	116 656 571
Fines, Penalties and Forfeits	16 040	53 790
	<b>117 612 151</b>	<b>122 204 071</b>

### 20. Service charges

Sale of electricity	15 983 481	9 911 880
Solid waste	4 396 446	4 205 595
Free basic services / rebates	(1 426 493)	(2 711 226)
	<b>18 953 434</b>	<b>11 406 249</b>

### 21. Other income

Traffic department income	2 052 006	1 937 043
Rates Clearance Certificates	12 444	23 261
Sale of goods and rendering of services	241 131	184 233
Rental income	677 327	305 426
Electricity: Connection & re-connection fees	653	25 766
Commission on collection	5 935	19 203
Trading licences	14 091	25 888
Movement in provision for Landfill site	-	7 157 744
LG Seta Reimbursive allowance	33 248	66 264
	<b>3 036 835</b>	<b>9 744 828</b>

### 22. Interest Received - Investment

**Interest revenue**

Bank	810 640	381 132
Interest charged on trade and other receivables	7 248 178	4 340 044
	<b>8 058 818</b>	<b>4 721 176</b>



# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 23. Property rates

#### Rates received

Property rates: Residential, Commercial Property, State 6 964 476 5 493 710

Rates are levied annually and monthly. Monthly rates are payable by the 7th of the following month and annual rates are payable before 30 September. Interest is levied at the prime rate plus 1% on outstanding monthly rates.

Rebates can be defined as any income that the Municipality is entitled by law to levy, but which has subsequently been forgone by way of rebate or remission.

The rates rebate for the current financial year is included in rates revenue received.

#### Valuations

Residential	763 839 732	763 839 732
Commercial	198 129 025	198 129 025
State	72 418 160	72 418 160
Municipal	174 339 859	174 339 859
Small holdings and farms	338 197 017	338 197 017
Churches	24 080 000	24 080 000
Public Service Infrastructure	203 000	203 000
Institutional	54 509 000	54 509 000
State Trust Land	8 154 220	8 154 220
Vacant	16 326 844	16 326 844
	<u>1 650 196 857</u>	<u>1 650 196 857</u>

The breakdown of the valuation roll for the prior year for state was consolidated into Public Service Infrastructure due to a re classification of codes on the new system votes when setting up the mSCOA votes in the current financial year.

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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### 24. Government grants and subsidies

#### Operating grants

Equitable share	74 331 000	83 788 000
Government grants - Operating	1 686 029	14 207 627
Government grants - Capital	34 614 606	18 660 944
	<u>110 631 635</u>	<u>116 656 571</u>

#### Municipal Disaster Recovery Grant

Balance unspent at beginning of year	2 384 317	1 000
Current-year receipts	-	2 384 317
Conditions met - transferred to revenue	(2 375 874)	(1 000)
	<u>8 443</u>	<u>2 384 317</u>

Conditions still to be met - remain liabilities (see note 16).

The grant will provide houses for the area of Manzimdaka in Cala, where residence lost their houses as a result of a storm.

#### Intergrated National Electrification Programme

Balance unspent at beginning of year	53 600	641 181
Current-year receipts	4 804 000	-
Conditions met - transferred to revenue	(4 669 214)	(587 581)
Other - rollover application denied transferred to equitable share	(53 600)	-
	<u>134 786</u>	<u>53 600</u>

Conditions still to be met - remain liabilities (see note 16).

The municipality has entered into an arrangement with Eskom for construction of MV powerlines for the areas within area of the municipality. All the powerlines are handed over back to Eskom upon completion and the project would be inspected by Eskom upon completion before it can be handed over. The Municipality has responsibility to appoint the contractor and/or service provider and the arrangement would improve the lives of the local communities.

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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### 24. Government grants and subsidies (continued)

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	8 378 689	-
Current-year receipts	19 009 000	23 882 000
Conditions met - transferred to revenue	(19 009 000)	(15 503 311)
Other - rollover application denied transferred to equitable share	(8 378 689)	-
	<u>-</u>	<u>8 378 689</u>

Conditions still to be met - remain liabilities (see note 16).

The MIG grant is a conditional grant used to upgrade and construct infrastructure in the municipal area with the main focus on previously disadvantaged areas.

#### Expanded Public Works Programme

Balance unspent at beginning of year	-	52 515
Current-year receipts	1 542 000	1 224 000
Conditions met - transferred to revenue	(1 524 452)	(1 276 515)
	<u>17 548</u>	<u>-</u>

Conditions still to be met - remain liabilities (see note 16).

This grant is for the salaries and operational costs of the contract employees for Extended Public Works Programme.

#### Department of Transport Taxi Rank Transfer

Current-year receipts	5 661 052	494 052
Conditions met - transferred to revenue	(5 661 052)	(494 052)
	<u>-</u>	<u>-</u>

#### Library subsidy

Current-year receipts	500 000	500 000
Conditions met - transferred to revenue	(500 000)	(500 000)
	<u>-</u>	<u>-</u>

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>25. Employee related costs</b>		
Basic	27 690 275	24 435 919
Bonus	1 977 696	1 782 899
Medical aid - company contributions	2 152 641	1 996 234
UIF	258 909	250 106
WCA	213 675	156 986
SDL	360 025	335 660
Leave pay provision charge	409 612	737 219
Pension Fund contributions	4 146 436	3 659 337
Travel, motor car, accommodation, subsistence and other allowances	52 918	148 921
Overtime payments	445 667	222 878
Long-service awards	-	122 270
Acting allowances	-	1 220 546
Telephone allowances	2 400	2 400
Bargaining Council contributions	15 821	384 882
	<b>37 726 075</b>	<b>35 456 257</b>
<b><u>Remuneration of Municipal Manager</u></b>		
Annual Remuneration	878 736	742 633
Car Allowance	277 680	208 260
Contributions to UIF, Medical and Pension Funds	40 535	41 877
Cellphone Allowance	18 000	13 500
Other Allowances	60 011	-
	<b>1 274 962</b>	<b>1 006 270</b>
<b><u>Remuneration of Chief Financial Officer (Paul Mahlasela)</u></b>		
Annual Remuneration	-	595 149
Car Allowance	-	96 000
Contributions to UIF, Medical and Pension Funds	-	76 462
Cellphone Allowance	-	8 000
	-	<b>775 611</b>
<b><u>Remuneration of Chief Financial Officer (Busisiwe Lubelwana)</u></b>		
Annual Remuneration	843 841	68 223
Car Allowance	60 000	5 000
Contributions to UIF, Medical and Pension Funds	2 012	159
Cellphone Allowance	12 000	1 000
Other Allowances	45 750	-
	<b>963 603</b>	<b>74 382</b>
<b><u>Director: Corporate Services L Fathuse</u></b>		
Annual Remuneration	58 154	697 854
Car Allowance	5 000	60 000
Contributions to UIF, Medical and Pension Funds	7 484	89 930
Cellphone Allowance	1 000	12 000
	<b>71 638</b>	<b>859 784</b>

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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### 25. Employee related costs (continued)

#### Director: Community Services

Annual Remuneration	665 251	697 854
Car Allowance	60 000	60 000
Contributions to UIF, Medical and Pension Funds	90 039	89 930
Cellphone Allowance	12 000	12 000
Other Allowances	39 865	-
	<u>867 155</u>	<u>859 784</u>

#### Director: Technical Services

Annual Remuneration	770 950	875 525
Car Allowance	60 000	60 000
Performance Bonuses	64 246	-
Contributions to UIF, Medical and Pension Funds	2 012	1 903
Cellphone Allowance	12 000	12 000
Other Allowances	44 672	-
	<u>953 880</u>	<u>949 428</u>

#### Director: IPED

Annual Remuneration	746 185	599 360
Car Allowance	120 000	90 000
Contributions to UIF, Medical and Pension Funds	40 535	17 118
Cellphone Allowance	12 000	9 000
Other Allowances	45 630	-
	<u>964 350</u>	<u>715 478</u>

#### Acting Chief Financial Officer (Zimasile Silinga)

Acting Allowance	-	21 322
	<u>-</u>	<u>21 322</u>

### 26. Remuneration of councillors

Executive Mayor	471 124	700 039
Speaker	1 177 410	658 558
Councillors	4 366 298	4 161 751
Medical, travel and other allowances	1 032 035	1 578 175
	<u>7 046 867</u>	<u>7 098 523</u>

### 27. Depreciation and amortisation

Property, plant and equipment	8 819 245	8 934 599
Investment property	4 821	4 839
	<u>8 824 066</u>	<u>8 939 438</u>

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>28. Finance costs</b>		
Non-current borrowings - Landfill site Provision	1 638 919	-
Post Employment Health	102 000	95 000
Trade and other payables	478 342	87 145
Finance leases	12 021	31 738
Long-service	162 000	146 000
	<b>2 393 282</b>	<b>359 883</b>
<b>29. Impairment loss</b>		
Debt impairment	13 765 043	8 170 419
Impairment - Fixed assets	1 507 761	-
	<b>15 272 804</b>	<b>8 170 419</b>
<b>30. Bulk purchases</b>		
Electricity - Eskom	15 839 634	13 429 890
<b>31. Contracted services</b>		
<b><u>Presented previously</u></b>		
Consultants and Professional Services	9 062 381	10 350 364
Contractors	7 122 308	4 101 118
<b>32. General expenses</b>		
Advertising	399 702	133 892
Auditors remuneration	4 065 594	4 706 974
Bank charges	136 295	103 427
Consumables	1 586 990	687 352
Entertainment	145 082	-
Rent - office equipment	230 664	221 154
Long-service bonus vested costs	148 000	313 000
Insurance	333 136	651 958
Conferences and seminars	29 566	205 928
IT expenses	1 536 845	1 319 057
Beautification of towns	-	2 686 382
Fuel and oil	862 962	600 796
Telephone, postage & fax	1 372 376	1 854 546
Protective clothing	866 006	295 800
Royalties and license fees	105 544	360 612
Subscriptions and membership fees	534 765	623 265
Electricity purchases	1 328 893	1 118 613
Training	113 994	449 739
Travel - local	465 538	514 761
Loss on disposal of asset	253 994	40 178
Remuneration Ward Committees	400 500	1 013 000
	<b>14 916 446</b>	<b>17 900 434</b>
<b>33. Auditors' remuneration</b>		
Fees	4 065 594	4 706 974

*MEM*

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>34. Cash generated from operations</b>		
Surplus	24 719 904	37 365 939
<b>Adjustments for:</b>		
Depreciation	8 824 066	8 939 438
Movements in provisions	3 113 814	(7 157 744)
Loss on disposal of assets	59 344	-
Finance costs	-	31 738
Debt and fixed asset impairment	15 272 804	8 170 419
Movements in retirement benefit assets and liabilities	21 000	(173 000)
<b>Changes in working capital:</b>		
Inventories	(319 189)	230 458
Other receivables	3 108 869	(3 192 882)
Receivables from exchange transactions	(12 077 018)	(9 738 804)
Receivables from non-exchange transactions	(7 473 407)	(5 355 030)
Payables from exchange transactions	(2 895 067)	(4 058 131)
VAT	(574 568)	18 390
Unspent conditional grants and receipts	(11 516 863)	9 401 507
Consumer deposits	-	(1 798)
	<b>20 263 689</b>	<b>34 480 500</b>

### 35. Financial instruments disclosure

#### Categories of financial instruments

#### 2022

#### Financial assets

	At amortised cost	Total
Trade and other receivables from exchange transactions	17 648 972	17 648 972
Cash and cash equivalents	4 305 543	4 305 543
Short-Term Investment Deposits: Call Deposits	5 833 260	5 833 260
	<b>27 787 775</b>	<b>27 787 775</b>

#### Financial liabilities

	At amortised cost	Total
Loan from Chris Hani District Municipality	2 000 000	2 000 000
Trade and other payables from exchange transactions	17 857 909	17 857 909
Deposits	83 665	83 665
	<b>19 941 574</b>	<b>19 941 574</b>

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>35. Financial instruments disclosure (continued)</b>		
<u>2021</u>		
<b>Financial assets</b>		
	At amortised cost	Total
Trade and other receivables from exchange transactions	7 382 230	7 382 230
Cash and cash equivalents	418 027	418 027
Short-term Investment Deposits: Call Deposits	18 665 368	18 665 368
	<u>26 465 625</u>	<u>26 465 625</u>
<b>Financial liabilities</b>		
	At amortised cost	Total
Loans from Chris Hani District Municipality	2 000 000	2 000 000
Trade and other payables from exchange transactions	20 304 581	20 304 581
Deposits	83 665	83 665
Lease liability: Current	283 247	283 247
	<u>22 671 493</u>	<u>22 671 493</u>
<b>36. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Property, plant and equipment	<u>13 191 573</u>	<u>20 741 120</u>
<b>Total capital commitments</b>		
Already contracted for but not provided for	<u>13 191 573</u>	<u>20 741 120</u>
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Contracted services	<u>2 244 945</u>	<u>4 536 099</u>
<b>Total operational commitments</b>		
Already contracted for but not provided for	<u>2 244 945</u>	<u>4 536 099</u>
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	13 191 573	20 741 120
Authorised operational expenditure	2 244 945	4 536 099
• Restated amount	-	147 012
	<u>15 436 518</u>	<u>25 424 231</u>



# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 37. Contingencies

The municipality had the litigation cases that could result in the following contingent liabilities being payable as at year end:

	2022	2021
Estimated cost of contingent liabilities	150 000	150 000
Xabana Civils CC		
- Xabana Civils CC has instituted action in the Grahamstown High Court for payment allegedly due to it	200 000	200 000
Nomasiyephi Gladies Sonamazi		
- Nomasiyephi Gladies Sonamazi, widow of Mr Jack, former employee alleges that the Municipality is liable to her the amount of R5 000 000 as it failed to comply with the Occupational Health and Safety Act, 85 of 1993.	80 000	80 000
Siyabulela Mponzo		
Luvuyo Fatuse - Case no. 117/2019		
- Invalidation of employment contract due to illegality	80 000	80 000
Fikile Balibese - Case no. 823A/2020		
Mr Dumile Mvulane's case		
- Sakhisizwe Local Municipality vs Mr DM Mvulane for misconduct	300 000	300 000
Sakhisizwe Land Invasion Committee		
Calusa vs Sakhisizwe Municipality	-	-
- The dispute is that Calusa requested information of the municipality in 2019/20		
Bavuka Trading	150 000	150 000
- Breach of contract		
Mr Loyiso Nyembe	0.00	3 500 000
-Mr Loyiso Nyembe passed on and then immediately after that his wife Mrs Feni Nyembe in terms of section 30EA of the pension fund Act, 24 of 1956 ("the Act) SM E/L VS Sakhisizwe LM		
Mrs Zoliswa Cynthia Msali-Morose	4 500 000	4 500 000
- The dispute is the letter of demand for damages suffered by the applicant		
Sakhisizwe LM/Lwazi Mponzo 979/2020	100 000	80 000
- Interdict against illegal land invasion, Part I of the interdict granted- Mr Mponzo interdicted from building a structure further. Par II of the interdict still to be heard on the 6th of August 2020. Matter may be settled.		
Khowa Land Invaders	300 000	300 000
- Illegal land invasion (Building and fencing) without approved application on portion of ERF 1, Khowa		
	5 860 000	9 340 000

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## 38. Prior period errors (continued)

### Statement of Financial Performance

Figures in Rand	Note(s)	Previously reported	Adjustment	Re-classification	Restated
<b>Revenue</b>					
<b>Revenue from exchange transactions</b>					
Service charges	20	11 198 401	207 848	-	11 406 249
Other income	21	10 473 791	(728 963)	-	9 744 828
Interest received - investment	22	4 721 176	-	-	4 721 176
Actuarial gains		358 000	-	-	358 000
<b>Total revenue from exchange transactions</b>		<b>26 751 368</b>	<b>(521 115)</b>	<b>-</b>	<b>26 230 253</b>
<b>Revenue from non-exchange transactions</b>					
<b>Taxation revenue</b>					
Property rates	23	5 493 710	-	-	5 493 710
<b>Transfer revenue</b>					
Government grants & subsidies	24	112 763 066	3 893 505	-	116 656 571
Fines, Penalties and Forfeits		-	53 790	-	53 790
<b>Total revenue from non-exchange transactions</b>		<b>118 256 776</b>	<b>3 947 295</b>	<b>-</b>	<b>122 204 071</b>
<b>Total revenue</b>	19	<b>145 008 144</b>	<b>3 426 180</b>	<b>-</b>	<b>148 434 324</b>
<b>Expenditure</b>					
Employee related costs	25	(40 120 789)	(597 527)	-	(40 718 316)
Remuneration of councillors	26	(7 098 523)	-	-	(7 098 523)
Depreciation and amortisation	27	(8 810 774)	(128 664)	-	(8 939 438)
Finance costs	28	(359 883)	-	-	(359 883)
Debt Impairment	29	(8 170 419)	-	-	(8 170 419)
Bulk purchases	30	(13 429 890)	-	-	(13 429 890)
Contracted services	31	(14 451 481)	(1)	-	(14 451 482)
Transfers and Subsidies		-	-	-	-
General Expenses	32	(17 900 434)	-	-	(17 900 434)
<b>Total expenditure</b>		<b>(110 342 193)</b>	<b>(726 192)</b>	<b>-</b>	<b>(111 068 385)</b>
<b>Surplus for the year</b>		<b>34 665 951</b>	<b>(726 192)</b>	<b>-</b>	<b>37 365 939</b>

#### Property, plant and equipment

Property Plant and Equipment was restated by R4 621 255 to align financial statements to the updated fixed asset register. Due to the INEP projects being capitalised and verify assts that were identified on the floor and did not appear in the FAR.

#### Payables from exchange transactions

This is due to the adjustments made to the bonus and leave provisions, salary control account for the out standing amount of PAYE & UIF and unallocated deposits were adjusted for and reclassified to other income.

#### Employee Benefit Obligation

The employee benefit obligation was adjusted to align the current and non current portion to the actuarial reports.

#### Government Grants

The amount was restated due to the revenue for library income that was previously in unallocated deposits. Grants previously received and incorrectly accounted for has also been corrected.

\* See Note 38

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 39. Risk management

#### Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance.

#### Liquidity risk

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

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

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

The table below analyses the municipality's financial liabilities and net-settled derivative 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. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

Other: Lease obligation	0	283,247
Trade and other payables	17 857 909	20 304 581
Maximum liquidity exposure	<u>17 857 909</u>	<u>20 304 581</u>

#### 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 counterparty.

Except as detailed below, the carrying amount of financial assets recorded in the Annual Financial Statements, which is net of impairment losses, represents the municipality's exposure to credit risk without taking account of the value of any collateral obtained.

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

Financial instrument	2022	2021
Cash and cash equivalents	10 138 803	19 083 395
Trade and other receivables	17 341 642	7 382 230

#### 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.

\* See Note 38

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>40. Unauthorised expenditure</b>		
Opening balance as previously reported	67 784 766	67 784 766
<b>Opening balance as restated</b>	<b>67 784 766</b>	<b>67 784 766</b>
Add: Expenditure identified - current	9 127 217	-
<b>Closing balance</b>	<b>76 911 983</b>	<b>67 784 766</b>
<b>41. Fruitless and wasteful expenditure</b>		
Opening balance as previously reported	3 160 668	2 939 070
<b>Opening balance as restated</b>	<b>3 160 668</b>	<b>2 939 070</b>
Add: Expenditure identified - current	253 269	221 598
<b>Closing balance</b>	<b>3 413 937</b>	<b>3 160 668</b>
The fruitless and wasteful expenditure relates to interest charged on overdue accounts and penalties.		
<b>42. Irregular expenditure</b>		
Opening balance as previously reported	98 215 017	88 856 091
<b>Opening balance as restated</b>	<b>98 215 017</b>	<b>88 856 091</b>
Add: Irregular Expenditure - current	10 141 878	9 358 926
<b>Closing balance</b>	<b>108 356 895</b>	<b>98 215 017</b>

\* See Note 38

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# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

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

#### Pension and Medical Aid Deductions - [MFMA 125 (1)(c)]

Opening balance	1 762 361	-
Current year subscription / fee	10 590 148	10 667 441
Amount paid - current year	(12 352 509)	(8 905 080)
	<u>-</u>	<u>1 762 361</u>

#### VAT - [MFMA 125 (1)(c)]

VAT receivable	<u>1 896 206</u>	<u>1 321 638</u>
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VAT output payables and VAT input receivables are shown in note .

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

#### Councillors' arrear consumer accounts - [MFMA 124 (1)(b)]

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

30 June 2022	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor B. Ponoshe	(2 166)	-	(2 166)
Councillor A Mpakane	13 006	-	13 006
Councillor V Filana	24 015	-	24 015
Councillor Z J Phonoshe	2 364	-	2 364
Councillor N Miso	27 575	-	27 575
Councillor L Thulelo	19 778	-	19 778
Councillor M Ngqayimbana	6 635	-	6 635
Councillor M Mxhonywa	8 781	-	8 781
	<u>99 988</u>	<u>-</u>	<u>99 988</u>
30 June 2021	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor T. Doda	180	-	180
Councillor B Ntsere	44	-	44
Councillor N. Radzilane Ponoshe	452	-	452
Councillor Z.A Mose	304	-	304
	<u>980</u>	<u>-</u>	<u>980</u>

Key management and Councillors receive and pay for services on the same terms and conditions as other rate payers and residents.

\* See Note 38

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# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

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

#### Supply chain management regulations

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

#### Deviations

July	226 030	92 209
August	134 092	360 022
September	16 045	59 167
October	1 751 873	561 087
November	-	59 167
December	156 978	206 760
January	115 826	543 027
February	82 958	728 677
March	44 169	320 839
April	75 704	123 063
May	11 155	510 842
June	362 390	179 084
	<b>2 977 220</b>	<b>3 743 944</b>

#### Electricity distribution losses

Units purchased (Kwh)	8 588 485	8 625 439
Units lost during distribution (Kwh)	395 831	1 385 555
Electricity lost during distribution (R)	730 001	3 691 317
Percentage lost during distribution (%)	5	16
	-	-

### 44. Deviation from supply chain management regulations

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

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

Buses and gym equipment were procured during the financial year under review and the process followed in procuring those goods deviated from the provisions of paragraph 12(1)(d)(i) as stated above. The reasons for these deviations were documented and reported to the who considered them and subsequently approved the deviation from the normal supply chain management regulations.

### 45. Accounting by principals and agents

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

#### Details of the arrangement is as follows:

The income from traffic department income includes agency fees consists of commission received from the Department of Transport for the issuing of vehicle registrations. The municipality (agent) collects licencing fees for vehicles on behalf of the Department of Transport (principal).

	<b>2022</b>	<b>2021</b>
Monies collected from Traffic Department	967 956	874,780

\* See Note 38

# Sakhisizwe Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>45. Accounting by principals and agents (continued)</b>		
<b>46. Fines, Penalties and Forfeits</b>		
Court Traffic Fines	16 040	53 790
<b>47. Other revenue</b>		
Other income	3 036 835	9 744 828
<b>48. Segment information</b>		
<u>Segment surplus or deficit, assets and liabilities</u>		

\* See Note 38

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# Sakhisizwe Local Municipality

## Annual Financial Statements for the year ended 30 June 2022

### Notes to the Annual Financial Statements

Figures in Rand

#### 48. Segment information (continued)

2022

	Finance and administration	Community and public safety	Planning and development	Road transport	Waste management	Executive and council	Energy sources	Total
<b>Revenue</b>								
Service charges	-	-	-	-	(4 396 446)	-	(14 556 988)	(18 953 434)
Other income	(1 976 164)	(1 465 590)	-	-	-	-	(1 121)	(3 442 875)
Interest investment	(8 058 818)	-	-	-	-	-	-	(8 058 818)
Property rates	(6 964 476)	-	-	-	-	-	-	(6 964 476)
Grants & subsidies	(76 889 668)	-	(19 440 107)	(12 384 735)	-	-	(1 917 125)	(110 631 635)
<b>Total segment revenue</b>	<b>(93 889 126)</b>	<b>(1 465 590)</b>	<b>(19 440 107)</b>	<b>(12 384 735)</b>	<b>(4 396 446)</b>	<b>-</b>	<b>(16 475 234)</b>	<b>(148 051 238)</b>
<b>Entity's revenue</b>								<b>(148 051 238)</b>
<b>Expenditure</b>								
Employee related costs	1 868 609	860 017	955 193	-	-	38 222 749	946 980	42 853 548
Remuneration of councillors	7 046 867	-	-	-	-	-	-	7 046 867
Depreciation and amortisation	2 948 319	298 105	-	-	-	-	-	3 246 424
Finance costs	1 914 939	-	-	5 085 459	-	478 341	492 182	7 970 921
Debt impairment	13 765 042	-	-	-	-	-	-	13 765 042
Bulk purchases	-	-	-	-	-	-	15 839 634	15 839 634
Contracted services	7 340 644	49 910	1 022 729	28 500	-	7 121 890	621 017	16 184 690
General expenses	4 732 414	3 798 395	-	-	-	7 893 398	-	16 424 207
<b>Total segment expenditure</b>	<b>39 616 834</b>	<b>5 006 427</b>	<b>1 977 922</b>	<b>5 113 959</b>	<b>-</b>	<b>53 716 378</b>	<b>17 899 813</b>	<b>123 331 333</b>
<b>Total segmental surplus/(deficit)</b>								<b>(24 719 905)</b>

Reporting on segment assets and liabilities

The Municipality has assessed that assets and liabilities associated with each segment is not used by management for decision making purposes, and neither is it being reported on. Assets and liabilities are utilised by management to assess key financial indicators for the Municipality as a whole. Accordingly, the assets and liabilities per segment is not required to be disclosed.



# Sakhisizwe Local Municipality

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## Notes to the Annual Financial Statements

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2022

2021

### 48. Segment information (continued)

#### Information about geographical areas

Although the Municipality operates in a number of geographical areas (i.e. wards), the geographical information is not considered relevant to management for decision-making. The goods and services provided to the community throughout the entire municipal area are based on similar tariffs and service standards. Therefore, the Municipality has assessed that it operates in a single geographical area.