



Masilonyana Local Municipality
Annual Financial Statements
for the year ended 30 June 2023

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Index

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

	Page
Corporate Governance Report	2
Report 1	3
Accounting Officer's Statement	4
General Information	5 - 6
Statement of Financial Position	7
Statement of Financial Performance	8
Statement of Changes in Net Assets	9
Statement of Comparison of Budget and Actual Amounts	10 - 11
Accounting Policies	12 - 44
Notes to the Annual Financial Statements	45 - 67

GRAP	Generally Recognised Accounting Practice
IAS	International Accounting Standards
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Corporate Governance Report

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Report 1

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Statement

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 were prepared in accordance with Standards of Generally Recognised AC-Accounting Practice (GRAP) as well as relevant 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.

I/We, as the accounting officer (Accounting authority acknowledges that I/we are 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 me/us to meet these responsibilities, the I/we set 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.

I/We am/are 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.

I/we have/has reviewed the municipality's cash flow forecast for the year to 30 June 2024 and, in the light of this review and the current financial position, I/we is/are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future

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

Although, I/we am/are primarily responsible for the financial affairs of the municipality, this is supported by the municipality's external auditors.

I would like to bring to your attention the following material matters to your attention that certify that the salaries, allowances and benefits of councillors as disclosed in note 33 to these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with the Act.:

The external auditor, being the Auditor General of South Africa, is responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page XXX5.

The annual financial statements set out on pages X to XX, which have been prepared on the going concern basis, were approved on 31 August 2023 [14p.23]::

Dr RS Motingoe
Designation

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

General Information

The accounting officer submits his report for the year ended 30 June 2023.

1. Incorporation

Masilonyana Municipality is a local municipality performing the functions as set out in the Constitution (Act no 108 of 1996).

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

2. Nature of Business and principal activities

Main business and operations

The provision of services (electricity, water, sanitation and refuse) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.

Legislation governing the municipality's operations

Constitution of the Republic of south Africa (Act 108 of 1998)

Local Government: Municipal Finance Management Act (Act no.56 of 2003)

Local Government: Municipal Systems Act (Act 32 of 2000)

Local Government: Municipal Structures Act (Act 117 of 1998)

Municipal Property Rates Act (act of 6 2004)

Division of Revenue Act (Act 1 of 2007)

Mayoral Committee

Mayor

Speaker

Chief Whip

MMC

3. Events after reporting date

In a note to the financial statements, the following is to be disclosed

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

4. Accounting policies

These 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 No 56 of 2003).

The Annual Financial Statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

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

5. Accounting Officer

The accounting officer of the municipality during the year and to the date of this report is as follows:

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

General Information

6. Bankers

The municipality's banking institution is:

ABSA Bank

Theunissen

9410

Branch Code: 632005

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Position as at 30 June 2023

Figures in Rand	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	2	-	(436 385)
Construction contracts and receivables	3	38 698	224 282
Receivables from non-exchange transactions	4	78 957 461	166 687 701
Consumer debtors	6	542 472 724	388 393 599
Cash and cash equivalents	7	-	907 650
		621 468 883	555 776 847
Non-Current Assets			
Investment property	8	17 387 611	17 387 611
Property, plant and equipment	9	666 404 486	666 793 866
Heritage assets		15 430	15 430
Other financial assets	10	85 806	85 806
		683 893 333	684 282 713
Total Assets		1 305 362 216	1 240 059 560
Liabilities			
Current Liabilities			
Payables from exchange transactions	12	193 434 131	179 915 943
VAT payable	13	55 737 981	59 615 759
Consumer deposits	14	773 758	667 718
Employee benefit obligation	15	977 000	977 000
Unspent conditional grants and receipts	16	124 070 437	96 150 615
Bank overdraft	7	155 811 184	-
		530 804 491	337 327 035
Non-Current Liabilities			
Employee benefit obligation	15	9 718 000	9 718 000
Provisions	17	23 930 182	23 930 182
		33 648 182	33 648 182
Total Liabilities		564 452 673	370 975 217
Net Assets		740 909 543	869 084 343
Accumulated surplus		740 473 157	869 084 343

* See Note

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	19	37 604 000	112 384 936
Rendering of services		925	-
Rental of facilities and equipment	20	487 006	335 119
Other income	21	382 435	504 519
Interest received	22	57	-
Total revenue from exchange transactions		38 474 423	113 224 574
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	23	63 792 437	61 326 978
Transfer revenue			
Government grants and subsidies	24	42 541 000	143 483 397
Total revenue from non-exchange transactions		106 333 437	204 810 375
Total revenue	18	144 807 860	318 034 949
Expenditure			
Employee related costs	25	114 792 342	131 283 499
Depreciation and amortisation	26	-	35 536
Finance costs	27	-	1 869 219
Bulk purchases	29	131 608 465	1 197 106
Contracted services	30	2 938 968	4 893 584
General expenses	31	12 755 895	24 515 692
Total expenditure		262 095 670	163 794 636
Operating (deficit)/ surplus		(117 287 810)	154 240 313
(Deficit)/ surplus for the year		(117 287 810)	154 240 313

* See Note

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Balance at 01 July 2021	714 844 030	714 844 030
Changes in net assets		
Surplus/(Deficit) for the year	154 240 313	154 240 313
Total changes	154 240 313	154 240 313
Balance at 30 June 2021	857 760 967	714 844 030
Changes in net assets		
Surplus for the year	(117 287 810)	(117 287 810)
Total changes	(117 287 810)	(117 287 810)
Balance at 30 June 2023	740 473 157	740 473 157
Note(s)		

* See Note

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Original budget	Budget Adjustment	Final adjustment budget	Shifting of Funds	Virement	Final Budget	Actual Outcome
--	-----------------	-------------------	-------------------------	-------------------	----------	--------------	----------------

Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	123 050 000	22 907 000	145 957 000	37 604 000	(108 353 000)	
Rendering of services	-	925	925	925	-	
Rental of facilities and equipment	4 136 000	(3 415 000)	721 000	487 006	(233 994)	
Other income	15 059 000	(6 201 000)	8 858 000	382 435	(8 475 565)	
Interest received - receivables	-	-	-	57	57	
Total revenue from exchange transactions	142 245 000	13 291 925	155 536 925	38 474 423	(117 062 502)	

Revenue from non-exchange transactions

Taxation revenue

Property rates	69 592 000	16 700 000	86 292 000	63 792 437	(22 499 563)	
----------------	------------	------------	------------	------------	--------------	--

Transfer revenue

Government grants & subsidies	151 040 000	1 000	151 041 000	42 541 000	(108 500 000)	
-------------------------------	-------------	-------	-------------	------------	---------------	--

Total revenue from non-exchange transactions	220 632 000	16 701 000	237 333 000	106 333 437	(130 999 563)	
---	--------------------	-------------------	--------------------	--------------------	----------------------	--

Total revenue	362 877 000	29 992 925	392 869 925	144 807 860	(248 062 065)	
----------------------	--------------------	-------------------	--------------------	--------------------	----------------------	--

Expenditure

Employee related cost	124 336 000	(4 583 000)	119 753 000	(114 792 342)	(234 545 342)	
Remuneration of councillors	7 922 000	38 000	7 960 000	-	(7 960 000)	
Depreciation and amortisation	19 276 000	87 901 000	107 177 000	-	(107 177 000)	
Finance costs	1 000 000	691 000	1 691 000	-	(1 691 000)	
Bulk purchases	90 631 000	21 229 000	111 860 000	(131 608 465)	(243 468 465)	
Contracted Services	-	-	-	(2 938 968)	(2 938 968)	
General Expenses	187 504 000	(132 189 000)	55 315 000	(12 755 895)	(68 070 895)	

Total expenditure	430 669 000	(26 913 000)	403 756 000	(262 095 670)	(665 851 670)	
--------------------------	--------------------	---------------------	--------------------	----------------------	----------------------	--

Deficit before taxation	793 546 000	3 079 925	796 625 925	(117 287 810)	(913 913 735)	
--------------------------------	--------------------	------------------	--------------------	----------------------	----------------------	--

Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	793 546 000	3 079 925	796 625 925	(117 287 810)	(913 913 735)	
--	--------------------	------------------	--------------------	----------------------	----------------------	--

Reconciliation

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Original budget	Budget Adjustment		
-----------------	-----------------	-------------------	--	--

Statement of Financial Position

Assets

Current Assets

Construction contracts and receivables	-	-	-	38 698	38 698
Receivables from non-exchange transactions	-	-	-	78 957 461	78 957 461
VAT receivable	-	-	-	307 991 988	307 991 988
Consumer debtors	109 750 000	(109 750 000)	-	542 472 724	542 472 724
Cash and cash equivalents	1 571 000	(1 571 000)	-	(155 811 184)	(155 811 184)
	111 321 000	(111 321 000)	-	773 649 687	773 649 687

Non-Current Assets

Investment property	17 388 000	(17 388 000)	-	17 387 611	17 387 611
Property, plant and equipment	670 818 000	(670 818 000)	-	666 404 486	666 404 486
Heritage assets	-	-	-	15 430	15 430
Other financial assets	201 000	(201 000)	-	85 806	85 806
	688 407 000	(688 407 000)	-	683 893 333	683 893 333

Total Assets

799 728 000	(799 728 000)	-	1 457 543 020	1 457 543 020
--------------------	----------------------	---	----------------------	----------------------

Liabilities

Current Liabilities

Payables from exchange transactions	295 927 000	(295 927 000)	-	193 434 131	193 434 131
VAT payable	-	-	-	363 729 969	363 729 969
Consumer deposits	355 000	(355 000)	-	773 758	773 758
Employee benefit obligation	-	-	-	977 000	977 000
Unspent conditional grants and receipts	-	-	-	124 070 437	124 070 437
Provisions	23 930 000	(23 930 000)	-	-	-
	320 212 000	(320 212 000)	-	682 985 295	682 985 295

Non-Current Liabilities

Employee benefit obligation	-	-	-	9 718 000	9 718 000
Provisions	-	-	-	23 930 182	23 930 182
	-	-	-	33 648 182	33 648 182

Total Liabilities

320 212 000	(320 212 000)	-	716 633 477	716 633 477
--------------------	----------------------	---	--------------------	--------------------

Net Assets

479 516 000	(479 516 000)	-	740 909 543	740 909 543
--------------------	----------------------	---	--------------------	--------------------

Net Assets

Net Assets Attributable to Owners of Controlling Entity

Reserves

Accumulated surplus	479 516 000	(479 516 000)	-	741 430 533	741 430 533
Undefined Difference	-	-	-	(520 990)	(520 990)
Total Net Assets	479 516 000	(479 516 000)	-	741 430 533	741 430 533

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

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.

Assets, liabilities, revenues and expenses were not off-set, except where off-setting 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.

1.1 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality and have been rounded-off to the nearest Rand.

1.2 Going concern assumption

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

Materiality

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

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

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

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance to write inventory down to the lower of cost or net realisable value has been made in certain circumstances. Management have made estimates of the selling price and direct cost to sell on certain inventory items.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including repayment probability of the consumers over period of time, category of the consumer debtors between residential, commercial and agricultural, identification of possible riots by the public causing damages to property and tangible assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

Useful lives of waste and water network and other assets

The municipality's management determines the estimated useful lives and related depreciation charges for the waste water and water networks. This estimate is based on industry norm. Management will increase the depreciation charge where useful lives are less than previously estimated useful lives.

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.

Allowance for doubtful debts

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

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.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.4 Investment property (continued)

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 9).

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

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

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.5 Property, plant and equipment (continued)

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

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

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

Property, plant and equipment 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:

Item	Depreciation method	Average useful life
Land	Straight line	Indefinite
Buildings	Straight line	30 - 50 Years
Finance Lease Assets	Straight line	2 - 3 Years
IT Equipment	Straight line	2 - 8 Years
Emergency Equipment	Straight line	4 - 7 Years
Furniture and fixtures	Straight line	5 - 12 Years
Maintenance Equipment	Straight line	3 - 20 Years
Motor Vehicles	Straight line	4 - 15 Years
Office Equipment	Straight line	3 - 15 Years
Bridges	Straight line	40 - 80 Years
Dams	Straight line	50 Years
Electricity Infrastructure	Straight line	20 - 50 Years
Roads and Stormwater Infrastructure	Straight line	5 - 60 Years
Sewerage Infrastructure	Straight line	2 - 60 Years
Solid Waste Infrastructure	Straight line	5 - 50 Years
Water Infrastructure	Straight line	3 - 100 years

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

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

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 disposal proceeds, if any, and the carrying amount of the item.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.5 Property, plant and equipment (continued)

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10).

1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as 'decommissioning, restoration and similar liabilities'. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:

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

1.7 Heritage assets

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

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

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

Cost is the amount of cash or cash equivalents paid or the fair value of the other consideration given to acquire an asset at the time of its acquisition or construction or, where applicable, the amount attributed to that asset when initially recognised in accordance with the specific requirements of other Standards of GRAP.

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

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

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

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.7 Heritage assets (continued)

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

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

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

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

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 11).

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

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

Impairment

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

Transfers

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

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

Derecognition

The municipality derecognises heritage asset on disposal, or when no future economic benefits or service potential is expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage asset is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.8 Financial instruments

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

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

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

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

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

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

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

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

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

A financial asset is:

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

A financial 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 entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.8 Financial instruments (continued)

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

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

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.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity's net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

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

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

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

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

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

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

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.8 Financial instruments (continued)

Initial measurement of financial assets and financial liabilities

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.8 Financial instruments (continued)

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Reclassification

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

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

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

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

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

Gains and losses

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

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

Impairment and uncollectibility of financial assets

The entity assess 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:

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.8 Financial instruments (continued)

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

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

Financial assets measured at cost:

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

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.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.8 Financial instruments (continued)

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

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

Financial liabilities

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

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

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

Presentation

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

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.

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets.

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

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

1.9 Statutory receivables

Identification

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.9 Statutory receivables (continued)

The cost method is the method used to account for statutory receivables that requires such receivables to be measured at their transaction amount, plus any accrued interest or other charges (where applicable) and, less any accumulated impairment losses and any amounts derecognised.

Nominal interest rate is the interest rate and/or basis specified in legislation, supporting regulations or similar means.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

Accrued interest

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

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

Other charges

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

Impairment losses

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

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

- Significant financial difficulty of the debtor, which may be evidenced by an application for debt counselling, business rescue or an equivalent.
- It is probable that the debtor will enter sequestration, liquidation or other financial re-organisation.
- A breach of the terms of the transaction, such as default or delinquency in principal or interest payments (where levied).

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.9 Statutory receivables (continued)

- 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 loss is recognised in surplus or deficit.

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

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

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

Derecognition

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

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

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

1.10 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.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.10 Leases (continued)

Finance leases - lessee

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

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

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

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

1.11 Inventories

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

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

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

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

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

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

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

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

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

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

1.12 Construction contracts and receivables

Construction contract is a contract, or a similar binding arrangement, specifically negotiated for the construction of an asset or a combination of assets that are closely interrelated or interdependent in terms of their design, technology and function or their ultimate purpose or use.

Contractor is an entity that performs construction work pursuant to a construction contract.

Cost plus or cost based contract is a construction contract in which the contractor is reimbursed for allowable or otherwise defined costs and, in the case of a commercially-based contract, an additional percentage of these costs or a fixed fee, if any.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.12 Construction contracts and receivables (continued)

Fixed price contract is a construction contract in which the contractor agrees to a fixed contract price, or a fixed rate per unit of output, which in some cases is subject to cost escalation clauses.

A contractor is an entity that enters into a contract to build structures, construct facilities, produce goods, or render services to the specifications of another entity either itself or through the use of sub-contractors. The term "contractor" thus includes a general or prime contractor, a subcontractor to a general contractor, or a construction manager.

The entity assesses the terms and conditions of each contract concluded with customers to establish whether the contract is a construction contract or not. In assessing whether the contract is a construction contract, an entity considers whether it is a contractor.

Where the outcome of a construction contract can be estimated reliably, contract revenue and costs are recognised by reference to the stage of completion of the contract activity at the reporting date, as measured by .

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer.

When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised to the extent that contract costs incurred are recoverable. Contract costs are recognised as an expense in the period in which they are incurred.

When it is probable that total contract costs will exceed total contract revenue, the expected deficit is recognised as an expense immediately.

1.13 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.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

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 test 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;
- base cash flow projections on the most recent approved financial budgets/forecasts, but excludes any estimated future cash inflows or outflows expected to arise from future restructuring's or from improving or enhancing the asset's performance. Projections based on these budgets/forecasts covers a maximum period of five years, unless a longer period can be justified; and
- estimate cash flow projections beyond the period covered by the most recent budgets/forecasts by extrapolating the projections based on the budgets/forecasts using a steady or declining growth rate for subsequent years, unless an increasing rate can be justified. This growth rate does not exceed the long-term average growth rate for the products, industries, or country or countries in which the entity operates, or for the market in which the asset is used, unless a higher rate can be justified.

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

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.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.13 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.

Any impairment loss of a revalued cash-generating asset is treated as a revaluation decrease.

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

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

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

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

Redesignation

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

1.14 Impairment of non-cash-generating assets

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

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

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

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

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

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

Useful life is either:

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

Identification

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.14 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.

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

Restoration cost approach

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

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.

Any impairment loss of a revalued non-cash-generating asset is treated as a revaluation decrease.

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

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

Reversal of an impairment loss

The municipality assess 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.

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

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

Redesignation

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

1.15 Share capital / contributed capital

An equity instrument is any contract that evidences a residual interest in the assets of a municipality after deducting all of its liabilities.

1.16 Employee benefits

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

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

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

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

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

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.16 Employee benefits (continued)

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

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 cell phones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise 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 recognise 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 measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise 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 entity provides post-employment benefits for one or more employees.

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.16 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.16 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.16 Employee benefits (continued)

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

1.17 Provisions and contingencies

Provisions are recognised when:

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

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

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

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.

Future events that may affect the amount required to settle an obligation shall be reflected in the amount of a provision where there is sufficient objective evidence that they will occur.

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

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

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

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

Provisions are not recognised for future operating surplus.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.17 Provisions and contingencies (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

1.18 Commitments

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.18 Commitments (continued)

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.19 Revenue from exchange transactions

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

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.19 Revenue from exchange transactions (continued)

Interest, royalties and dividends

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

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

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

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

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

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

1.20 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

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

Recognition

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

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

Measurement

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

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

Taxes

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

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

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

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

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

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

Debt forgiveness and assumption of liabilities

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

Fines

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

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

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

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably. Donations are recognised on a cash receipt basis or, where the donation is in the form of property, plant and equipment, when the risks or rewards of ownership have transferred to the municipality. Donations are measured at fair value.

Services in-kind

Except for financial guarantee contracts, the municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

The municipality recognise services in-kind that are significant to its operations and/or service delivery objectives as assets and recognise the related revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Where services in-kind are not significant to the municipality's operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, the municipality disclose the nature and type of services in-kind received during the reporting period.

1.21 Investment income

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

1.22 Borrowing costs

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

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

1.23 Comparative figures

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

1.24 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.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.25 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.

1.26 Irregular expenditure

Irregular expenditure is defined in section 1 of the MFMA and refers to expenditure other than unauthorised expenditure, incurred in contravention of or that is not in accordance with a requirement of any applicable legislation, including -

- Municipal Finance Management Act, Act 56 of 2003, and its regulations;
- Municipal Systems Act, Act 32 of 2000, and its regulations;
- Public Office-Bearers Act, Act 20 of 1998, and its regulations; and
- The municipality's supply chain management policy, and any by-laws giving effect to the policy.

All instances of irregular expenditure must be recovered from the liable official or political office-bearer, unless the expenditure is certified by the municipal council, after investigation by a council committee, as irrecoverable and written-off by the council.

Irregular expenditures resulting from breaches of the Public Office-Bearers Act is an exception in that the irregular expenditure must be recovered from the political office-bearer to whom it was paid, who might not have been responsible for making, permitting or authorising the irregular expenditure.

Once it has been established who is liable for the irregular expenditure, the accounting officer must in writing request that the liable political office-bearer or official pay the amount within 30 days or in reasonable installments. If the person fails to comply with the request, the matter must be recovered through the normal debt collection process of the municipality.

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

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

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

1.27 Budget information

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

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

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

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.27 Budget information (continued)

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are on the same basis of accounting as determined by National Treasury.

1.28 Related parties

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

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

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

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

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

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

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

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

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

1.29 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.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
2. Inventories		
Stores, materials and fuels	-	(436 385)
The inventory relates to the consumables mainly in the stores and small tools.		
Inventory pledged as security		
None of the inventory was pledged as security.		
3. Construction contracts and receivables		
Receivables		
Other receivables	38 698	224 282
The other receivables relates to prepayments and negative creditors		
None of the debtors were pledged as security.		
4. Receivables from non-exchange transactions		
Property rates	381 949 876	469 680 116
Impairment	(302 992 415)	(302 992 415)
	78 957 461	166 687 701
Receivables from non-exchange transactions pledged as security		
None of the receivables from non-exchange transactions were pledged as security		
Receivables from non-exchange transactions past due but not impaired		
Other receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2023, R - (2022: R -) were past due but not impaired.		
Receivables from non-exchange transactions impaired		
As of 30 June 2023, other receivables from non-exchange transactions of R - (2022: R -) were impaired and provided for.		
The amount of the provision was R - as of 30 June 2023 (2022: R -).		
The ageing of these non exchange receivables is as follows:		
Reconciliation of provision for impairment of receivables from non-exchange transactions		
Opening balance	(302 992 415)	(302 992 415)

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
5. VAT receivable		
6. Receivables from exchange transactions		
Gross balances		
Electricity	107 231 942	119 972 428
Water	489 423 113	371 999 615
Sewerage	244 631 209	212 475 035
Refuse	141 414 922	124 174 983
	982 701 186	828 622 061
Less: Allowance for impairment		
Electricity	(47 785 211)	(47 785 211)
Water	(205 923 800)	(205 923 800)
Sewerage	(118 013 645)	(118 013 645)
Refuse	(68 505 806)	(68 505 806)
	(440 228 462)	(440 228 462)
Net balance		
Electricity	59 446 731	72 187 217
Water	283 499 313	166 075 815
Sewerage	126 617 564	94 461 390
Refuse	72 909 116	55 669 177
	542 472 724	388 393 599
Reconciliation of allowance for impairment		
Balance at beginning of the year	-	(440 228 462)
Undefined Difference	(440 228 462)	-
	(440 228 462)	(440 228 462)

Consumer debtors pledged as security

None of the consumer debtors were pledged as security

Credit quality of consumer debtors

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

Consumer debtors past due but not impaired

There are no receivables that are past due that are not impaired:

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

7. Cash and cash equivalents

Cash and cash equivalents consist of:

Bank balances	(155 869 820)	849 014
Short-term deposits	58 636	58 636
	(155 811 184)	907 650

Cash and cash equivalents pledged as collateral

None of the cash has been pledged as security.

The municipality had the following bank accounts

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

8. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	22 723 320	(5 335 709)	17 387 611	22 723 320	(5 335 709)	17 387 611

Reconciliation of investment property - 2022

	Opening balance	Difference	Additions	Total
Investment property	17 387 611	(22 723 320)	22 723 320	17 387 611

Pledged as security

None of the assets are pledged as security:

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.

Maintenance of investment property

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	259 497 922	(113 698 874)	145 799 048	259 497 922	(113 698 874)	145 799 048
Plant and machinery	1 258 687	(785 398)	473 289	1 258 687	(785 398)	473 289
Furniture and fixtures	3 347 163	(2 374 465)	972 698	3 347 163	(2 374 465)	972 698
Motor vehicles	15 032 940	(9 412 595)	5 620 345	15 032 940	(9 412 595)	5 620 345
Office equipment	664 818	(161 898)	502 920	1 083 434	(191 134)	892 300
IT equipment	3 737 761	(2 445 432)	1 292 329	3 737 761	(2 445 432)	1 292 329
Infrastructure	947 690 986	(541 726 645)	405 964 341	947 690 986	(541 726 645)	405 964 341
Emergency equipment	235 306	(585 700)	(350 394)	235 306	(585 700)	(350 394)
Bins and containers	21 816	-	21 816	21 816	-	21 816
Work in progress - Infrastructure	106 108 094	-	106 108 094	106 108 094	-	106 108 094
Total	1 337 595 493	(671 191 007)	666 404 486	1 338 014 109	(671 220 243)	666 793 866

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

9. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Depreciation	Total
Land and Buildings	145 799 048	-	-	145 799 048
Plant and machinery	473 289	-	-	473 289
Furniture and fixtures	972 698	-	-	972 698
Motor vehicles	5 620 345	-	-	5 620 345
Office equipment	892 300	202 799	(592 179)	502 920
IT equipment	1 292 329	-	-	1 292 329
Infrastructure	405 964 341	-	-	405 964 341
Emergency equipment	(350 394)	-	-	(350 394)
Bins and containers	21 816	-	-	21 816
Work in progress - Infrastructure	106 108 094	-	-	106 108 094
	666 793 866	202 799	(592 179)	666 404 486

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Depreciation	Total
Land and buildings	145 799 048	-	-	145 799 048
Plant and machinery	473 289	-	-	473 289
Furniture and fixtures	972 698	-	-	972 698
Motor vehicles	5 620 345	-	-	5 620 345
Office equipment	300 121	621 415	(29 236)	892 300
IT equipment	1 292 329	-	-	1 292 329
Infrastructure	395 929 233	10 035 108	-	405 964 341
Emergency equipment	(350 394)	-	-	(350 394)
Bins and containers	-	21 816	-	21 816
Work in progress - Infrastructure	81 379 698	24 728 396	-	106 108 094
	631 416 367	35 406 735	(29 236)	666 793 866

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

9. Property, plant and equipment (continued)

Pledged as security

None of the assets are pledged as security:

Expenditure incurred to repair and maintain property, plant and equipment

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.

Change in estimate

Aggregate of assets	675 000	300 000
---------------------	---------	---------

Various movable assets and infrastructure assets with original remaining useful lives varying between 1-100 years have been revised in the beginning of the period to reflect a new depreciable amount and the actual pattern of service potential derived from these assets.

The effect on the current and future periods will be a decrease in the depreciation charge of R 675 800 in the current period and an equal increase in the depreciation charge of R 675 800 over the next periods as per the above table.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
10. Other financial assets		
Designated at fair value		
Senwes Limited and Senwes Beleggings Limited shares	85 806	85 806
Terms and conditions		
Non-current assets		
At fair value	85 806	85 806
11. Other financial liabilities		
12. Payables from exchange transactions		
Trade payables	2 266 679	82 075 835
Third Party Payments (Payroll Accruals)	187 827 876	82 514 223
Accrued leave pay	9 159 487	9 159 487
Accrued bonus	2 050 084	2 050 084
Retentions	607 523	607 523
Unallocated deposits	(10 762 089)	1 106 604
Consumer deposits	2 284 571	2 402 187
	193 434 131	179 915 943
13. VAT payable		
VAT	55 737 981	59 615 759
14. Consumer deposits		
Water and electricity	773 198	667 718
Water	560	-
	773 758	667 718

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

15. Employee benefit obligations

The municipality has two employee benefit obligations being the Post Medical Aid Subsidy and the Long Service Award. The two benefits plan are unfunded and were valued as at 30 June 2020. Below is the details.

Post employment medical aid benefit

The municipality offers post employment health care benefits to employees and retired employees and to their registered dependants.

The post medical aid subsidy is a defined benefit plan and is unfunded. At period end 13 employees were eligible for the post employment health care benefits.

The post medical aid subsidy valuation was conducted as at 30 June 2020.

The current service costs for the year is estimated to be R 0.00 (30 June 2019: R 0.00) whereas the interest cost for the ensuing year is estimated to be R 388 000 (30 June 2019: R 473 345).

Long Service Award

The municipality offers Long Service Award to employees for every five years of service completed, from five years of service to 45 years of service, inclusive.

The Long Service Award is a defined benefit plan and is unfunded. At period end 336 employees were eligible for the Long Service Award.

The Long Service Award plan valuation was conducted as at 30 June 2020.

The current service costs for the year is estimated to be R 643 000 (30 June 2019: R 596 221) whereas the interest cost for the ensuing year is estimated to be R 429 000 (30 June 2019: R 484 435).

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

Non-current liabilities	(9 718 000)	(9 718 000)
Current liabilities	(977 000)	(977 000)
	(10 695 000)	(10 695 000)

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

Opening balance	10 705 000	10 705 000
-----------------	------------	------------

Net expense recognised in the statement of financial performance

Medical Aid Benefit - Key Assumptions used

In estimating the liability for the post-employment health care benefits a number of assumptions are required. The GRAP 25 statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the post-employment health care arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and future-service costs are recognised over timeAdditional text.

Assumptions used at the reporting date:

Key Demographic Assumptions

Mortality post-employment - PA(90) -1 with a 1% mortality improvement p.a. from 2010

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

15. Employee benefit obligations (continued)

Long Service Awards - Key Assumptions used

In estimating the unfunded liability for LSA of the Municipality a number of actuarial assumptions are required. The GRAP 25 Statement places the responsibility on management to set these assumptions, as guided by the principles set out in the Statement and in discussion with the actuary.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the LSA arrangement – this is determined by actual experience and by the benefits provided. The method and assumptions influence how the past service liability and Current-Service costs are recognised over time.

Key Financial Assumptions

Assumption	Value		
Average retirement age	62		
Mortality during employment	SA 85-90		1
Withdrawal from service (sample annual rates)	Age	Female	1
	20	9%	9%
	30	6%	6%
	40	5%	5%
	50	3%	3%
	55	0%	0%

Other assumptions

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

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

16. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts

Financial Management Grant	4 011 048	4 011 048
Municipal Infrastructure Grant	62 443 616	48 775 219
Water service Infrastructure Grant	47 807 650	34 773 225
Regional Bulk Infrastructure Grant	7 600 068	7 600 068
Expanded public Works Programme Integrated Grant	1 315 055	991 055
Expanded Public Works Programme Intergrated Grant	893 000	-
	124 070 437	96 150 615

Movement during the year

Balance at the beginning of the year	96 150 615	106 455 012
Additions during the year	27 919 822	(10 304 397)
	124 070 437	96 150 615

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

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

17. Provisions

Reconciliation of provisions - 2022

	Opening Balance	Total
Environmental rehabilitation	23 930 182	23 930 182

Reconciliation of provisions - 2021

	Opening Balance	Total
Environmental rehabilitation	23 930 182	23 930 182

Costs in the Statement of Financial Performance

Change in landfill closure provision	-	(3 570 724)
Interest charge	-	2 079 590
	-	(1 491 134)

Environmental rehabilitation provision

Provision of the final rehabilitation and closure costs for the landfills controlled by Masilonyana Local Municipality which includes Brandfort, Winburg, Verkeerdevlei and Theunissen.

The municipality is expected to provide for the costs associated with the rehabilitation and closure of the landfills for all its sites. The costs is provided for based on the calculations made by the actuaries.

The liability is calculated using the GLCCM which includes costs associated with:

- Pre-closure planning and approvals (four cost elements)
- Final rehabilitation and closure (seven cost elements)
- 30 years¹ post-closure monitoring (seven costs elements)

Between 2011 and 2019, the GLCCM has been used to conduct 396 closure cost determinations for 113 landfills and quarries controlled by 41 municipalities/entities spread over seven provinces.

The GLCCM standardises the determination of landfill closure costs between different landfills and for the same landfill over time. The GLCCM is based on the *Minimum Requirements for Waste Disposal by Landfill* of the Department of Water Affairs (1998), as amended by more recent regulations.

Key assumptions used.

Unit Costs

Unit costs for each of the cost elements are obtained annually by means of a commercial quotation. Details of this are provided separately.

CPI

The CPI² is used for determining the future value of current costs in the year when the cost is projected to be incurred. The CPI figure used in the GLCCM is based on the three-month average CPI for the quarter that includes the financial year-end date. The average of the CPI for the last quarter amounted to 2.4107%.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

17. Provisions (continued)

Discount Rate

GRAP 19 states that where the effect of the time value of money is material, the amount of the provision shall be the present value of the expenditures expected to be required to settle the obligation. In view of the long operational life of landfills, the time value of money is considered material. GRAP 19 prescribes that the discount rate shall be the pre-tax rate that reflects current market assessments of the time value of money, and the risks specific to the liability. Normally corporate bond rates are used to determine the discount rate. In line with GRAP 25 *Defined benefit plans*, government bond rates may also be used to determine the discount rate. The liability for this purpose is in most cases determined for a government entity (municipality). Therefore, government bond rates are considered a more appropriate indicator of the risk associated with the entity than corporate bond rates to determine the discount rate. The government bond rate most consistent with the estimated term of the liability should be used. As inflation-linked RSA retail bond rates have longer terms than fixed RSA retail bond rates, inflation-linked rates are used. The rate most consistent with the remaining life of the landfills published at the end of the quarter that includes the financial year-end date was used.

- For landfills with an expected remaining life of three years or less, the rate associated with a maximum period of 3 years is used.
- For landfills with an expected remaining life of four of five years, the rate associated with a maximum period of 5 years is used.
- For landfills with an expected remaining life of more than five years, the rate associated with a maximum period of 10 years is used. The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Assumption

	For Brandfort, Winburg, Verkeerdevelei and Theunissen landfills
CPI	2.4107%
Discount rate	7.4107%
Net effective discount rate	5%

18. Revenue

Rendering of services	925	-
Service charges	37 604 000	112 384 936
Rental of facilities and equipment	487 006	335 119
Sundry income	382 435	504 519
Interest received	57	-
Property rates	63 792 437	61 326 978
Government grants & subsidies	42 541 000	143 483 397
	144 807 860	318 034 949

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

Service charges	37 604 000	112 384 936
Rendering of services	925	-
Rental of facilities and equipment	487 006	335 119
Other income	382 435	504 519
Interest received	57	-
	38 474 423	113 224 574

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

18. Revenue (continued)

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

Taxation revenue

Property rates

63 792 437	61 326 978
------------	------------

Transfer revenue

Government grants & subsidies

42 541 000	143 483 397
------------	-------------

106 333 437	204 810 375
--------------------	--------------------

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
19. Service charges		
Other Service charges	5 569 131	5 139 258
Sale of electricity	3 546 366	20 617 325
Sale of water	45 649 147	44 992 370
Sewerage and sanitation charges	28 063 133	26 648 142
Refuse removal	(45 223 777)	14 987 841
	37 604 000	112 384 936
20. Rental of facilities and equipment		
Premises		
Premises	487 006	335 119
21. Other income		
Other sundry income	382 435	504 519
22. Investment revenue		
Interest revenue		
Interest charged on trade and other receivables	57	-
23. Property rates		
Rates received		
Residential	8 163 469	18 704 678
Commercial	-	30 526 135
State	-	7 471 305
Small holdings and farms	-	4 624 860
Property rates 1	55 628 968	-
	63 792 437	61 326 978

Valuations

Valuations on land and buildings are performed every five years. The last general valuation came into effect on 1 July 2015. Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

24. Government grants and subsidies

Operating grants

Equitable share	42 541 000	133 179 000
-----------------	------------	-------------

Capital grants

Municipal Infrastructure Grant	-	10 304 397
	42 541 000	143 483 397

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Equitable Share

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

Local Government Financial Management Grant

Balance unspent at beginning of year	4 011 048	4 011 048
--------------------------------------	-----------	-----------

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

Regional Bulk Infrastructure Grant

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

Municipal Infrastructure Grant

Balance unspent at beginning of year	48 775 219	48 775 219
Current-year receipts	13 668 397	-
	62 443 616	48 775 219

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

Energy Efficiency Demand Grant

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

Integrated National Electrification Programme Grant

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

Water Services Infrastructure Grant

Balance unspent at beginning of year	34 773 225	34 773 225
Undefined Difference	13 034 425	-
	47 807 650	34 773 225

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

Expanded Public Works Programme Integrated Grant for Municipalities

Conditions have been met. (see note 16).

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

25. Employee related costs

Basic	88 206 468	89 261 140
Bonus	-	5 410 842
Medical aid - company contributions	-	8 084 246
Unemployment Insurance Fund	-	725 379
Skills Development Levy	-	625
Contributions to Pension and Provident funds	-	12 354 225
Overtime payments	-	2 910 104
Long-service awards	-	349 520
Acting allowances	-	2 925 637
Housing benefits and allowances	-	431 885
Allowance: Cell phones	26 585 874	1 184 999
Allowance: Travel	-	6 077 509
Allowance: Standby	-	1 567 388
	114 792 342	131 283 499

Remuneration of Chief Financial Officer - Ms F Mzizi

26. Depreciation and amortisation

Property, plant and equipment	-	35 536
-------------------------------	---	--------

27. Finance costs

Trade and other payables	-	1 869 219
Finance leases	-	-
	-	1 869 219

28. Debt impairment

29. Bulk purchases

Electricity - Eskom	131 608 465	1 197 106
---------------------	-------------	-----------

30. Contracted services

Presented previously

Fleet Services	-	1 034 272
Operating Leases	1 364 256	1 257 541
Specialist Services	148 340	295 264
Other Contractors	1 426 372	2 306 507

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

31. General expenses

Bank charges	260 839	-
Computer expenses	8 851	253 891
Consumables	5 054 999	5 428 264
Discount allowed	1 798 952	938 866
Fuel and oil	1 063 807	1 623 646
Printing and stationery	123 084	523 127
Protective clothing	-	26 600
Training	-	107 500
Travel - local	664 991	72 058
Rental expense	575 045	6 416 271
Accommodation	106 482	87 169
IT related expenses	-	214 739
Pauper burials	4 000	46 797
Licence and Registration - Vehicles	220 146	106 748
Repairs and maintenance	2 874 699	8 670 016
	12 755 895	24 515 692

32. Fair value adjustments

33. Other revenue

Other income	382 435	504 519
--------------	---------	---------

Other income relates to Tender fees, clearance certificates, Cemetery fees, building plans and other law enforcement related fees

34. Auditors' remuneration

35. Cash (used in) generated from operations

(Deficit) surplus	(117 287 810)	154 240 313
Adjustments for:		
Depreciation and amortisation	-	35 536
Changes in working capital:		
Inventories	(436 385)	644 966
Consumer debtors	(121 787 450)	(121 787 450)
Receivables from non-exchange transactions	87 730 240	(6 769 853)
Other receivables	185 584	-
Payables from exchange transactions	13 518 186	(9 826 407)
VAT	(3 877 778)	8 538 483
Unspent conditional grants and receipts	27 919 822	(10 304 397)
Consumer deposits	106 040	169 995
	(113 929 551)	14 941 186

36. Commitments

Authorised capital expenditure

Total commitments

This committed expenditure relates to construction of property, plant and equipment and will be financed by available bank facilities, accumulated surplus, existing cash resources, funds internally generated and funding received from National Treasury and other government institutions.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

37. Related parties

Relationships

Accounting Officer

Shareholder with significant influence

Shareholder with joint control

Refer to accounting officer's report note

Name (Proprietary) Limited

Name (Proprietary) Limited

Remuneration of management

Refer to Note 24 and Note 25

38. Events after the reporting date

At the time of preparing and submitting the Annual Financial Statements there were no subsequent events to disclose.

The impact of COVID pandemic has been considered and no changes have been noted to the municipality's operations.

39. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus of R 740 473 157 and that the municipality's total assets exceed its liabilities by R 740 473 157.

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

It is a state entity set up by the Constitution of the Republic of South Africa to provide basic services to the community and is also funded by the state for that purpose. Failure to provide these services will prompt National Government intervention to ensure it stays functional and able to deliver basic services and consequently compliance with the Constitution

	2019/2020	2020/2021	2021/2022
Municipal Infrastructure Grant	32 421 000	24 533 000	26 133 000
Water Services Infrastructure Grant	10 000 000	11 000 000	12 000 000
Integrated National Electrification Programme Grant	3 200 000	4 914 000	5 184 000
Equitable share	118 906 000	128 001 000	138 131 000
	164 527 000	168 448 000	181 448 000

40. Unauthorised expenditure

Opening balance as previously reported	1 122 588 189	1 122 588 189
--	---------------	---------------

Analysed as follows: non-cash

41. Fruitless and wasteful expenditure

Opening balance as previously reported	17 455 824	17 395 824
Correction of prior period error	-	60 000
Opening balance as restated	17 455 824	17 455 824
Closing balance	17 455 824	17 455 824

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

41. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

42. Irregular expenditure

Opening balance as previously reported

875 692 258 659 139 774

Opening balance

218 199 407 216 552 484

Opening balance as restated

1 093 891 665 875 692 258

Closing balance

1 093 891 665 875 692 258

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

43. Deviation from supply chain management regulations

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

44. Risk management

Financial risk management

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

Liquidity risk

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

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.

Credit risk

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

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

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

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand

2023

2022

44. Risk management (continued)

Market risk

Interest rate risk

As the municipality has significant interest-bearing assets, the municipality's income and operating cash flows are substantially affected of changes in market interest rates.

The municipality's interest rate risk arises from short term loans and investment. These are issued at variable rate and expose the Municipality to cash flow interest rate risk.

Financial instruments that are issued at fixed rate expose the municipality to fair value interest rate risk.

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

45. Additional disclosure in terms of Municipal Finance Management Act

PAYE, SDL and UIF

Opening balance	-	15 083 298
Current year subscription / fee	-	17 788 904
Amount paid - current year	-	(16 562 344)
	-	16 309 858

Pension and Medical Aid Deductions

Opening balance	-	59 590 038
Current year subscription / fee	-	31 318 917
	-	90 908 955

VAT

VAT receivable	307 991 988	128 799 780
VAT payable	-	(86 482 889)
	307 991 988	42 316 891

Opening balance	(629 417)	(7 025 610)
Current year	51 120 851	6 396 193
	50 491 434	(629 417)

VAT output payables and VAT input (receivables) are shown in note 5.

All VAT returns have been submitted throughout the year.

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2023:

30 June 2023	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Modise	307	27 609	27 916
Councillor Makata	307	14 709	15 016
Councillor Tlahadi	(1 482)	3 642	2 160
Councillor Kototsa	2 646	54 864	57 510
Councillor Tladi	2 518	81 391	83 909
Councillor Visser	(1 380)	5 183	3 803
Councillor Mokalolise	34 154	118	34 272
Councillor Putsoenyane	2 820	40 791	43 611
Councillor Moroane	(1 482)	46 755	45 273
Councillor Letsie	2 518	5 858	8 376
Councillor Phehlane	2 518	-	2 518
	43 444	280 920	324 364

Masilonyana Local Municipality

(Registration number FS181)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
-----------------	------	------

46. Other Statutory Receivables

47. Statutory receivables relating to other Standards of GRAP (other than exchange or non-exchange receivables)

48. Service concession liabilities

49. Expenses from service concession arrangements

50. Interest from non-exchange receivables

51. Transitional provisions

52. Accounting by principals and agents

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

Details of the arrangement(s) is|are as follows:

[Provide a description of the arrangement(s), including the transaction(s) undertaken]

The entity is the principal OR agent. Refer to note for significant judgements applied in making this assessment.

[State significant terms and conditions of the arrangement(s) and whether any changes occurred during the reporting period]

[Provide an explanation of the purpose of the principal-agent relationship(s) and any significant risks (including any risk mitigation strategies) and benefits associated with the relationship(s)]

Resources (including assets and liabilities) of the entity under the custodianship of the agent

The resources have been recognised/have not been recognised by the agent in its financial statements. [Choose as appropriate]

The remittance of resources during the period [State details].

The expected timing of remittance of remaining resources by the agent to the entity, are [State timing and details].

The expected timing of remittance of remaining resources by the agent to third parties, are [State timing and details].

Resource or cost implications for the entity if the principal-agent arrangement is terminated, are [State information/discussion].

[Provide additional info as appropriate]

Fee paid

Resource and/or cost implications for the entity if the principal-agent arrangement is terminated

The resource and/or cost implications for the entity if the principal-agent arrangement is terminated, are [State information/discussion].

[Provide additional info as appropriate]

53. BBBEE Performance

54. Service concession arrangements

55. Service concession assets