



**Setsoto Local Municipality**

(Municipal demarcation code FS191)

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

**Auditor-General of South Africa (AGSA)**

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Audit & Performance Audit Committee Report

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We are pleased to present our report for the financial year ended 30 June 2022.

### Audit committee members and attendance

The audit committee consists of the members listed hereunder and should meet 4 times per annum as per its approved terms of reference. During the current year 5 number of meetings were held.

<b>Name of member</b>	<b>Number of meetings attended</b>
Mr HB Mathibela (Chairperson)	5
Mr SL Mofokeng	5
Mr T Zororo	5
Ms MNF Kobo	5
Ms SJ Masite	5

All members are independent with no interest in the management or conduct of the business of the Municipality.

### Audit & performance audit committee responsibility

The audit committee reports that it has complied with its responsibilities arising from section 166(2)(a) of the MFMA.

The audit committee also reports that it has adopted appropriate formal terms of reference as its audit committee charter, has regulated its affairs in compliance with this charter and has discharged all its responsibilities as contained therein.

### The effectiveness of internal control

The system of internal controls applied by the municipality over financial and risk management is considered generally adequate in design and is partially ineffective in its implementation and this was evident by the reasonable assurance given by the Internal Audit Unit. However, there have been some vast improvements on some internal controls. The identification of corrective actions and suggested enhancements to the controls were done through a risk management process and interaction with management on the action plan on the audited report.

### Evaluation of annual financial statements

The audit & performance audit committee has:

- reviewed and discussed the audited annual financial statements to be included in the annual report, with the Auditor-General and the Accounting Officer;
- reviewed the Auditor-General of South Africa's management report and management's response thereto;
- reviewed changes in accounting policies and practices;
- reviewed the municipalities compliance with legal and regulatory provisions;
- reviewed significant adjustments resulting from the audit.

### Internal audit

The audit & performance audit committee is satisfied that the internal audit function is operating effectively and that it has addressed the risks pertinent to the municipality and its audits.

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**Chairperson of the Audit & Performance Audit Committee**

**Date:** \_\_\_\_\_

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Officer's Report

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The accounting officers submit their report for the year ended 30 June 2022.

### 1. Review of activities

#### Main business and operations

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

Net deficit of the municipality was R 124 553 657 (2021: deficit R 214 747 113).

### 2. Going concern

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated surplus (deficit) of R 2 660 805 999 and that the municipality's total assets exceed its liabilities by R 2 660 805 999.

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.

### 3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year.

### 4. Accounting Officers' interest in contracts

The Accounting Officers had no interest in any contracts.

### 5. Accounting policies

The annual financial statements prepared as required in terms of Section 122 of the Municipal Finance Management Act (No56. of 2003) and in accordance with the South African Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations of such statements issued by the Accounting Standards Board, and in accordance with the prescribed framework by National Treasury.

### 6. Employee Benefits

Management performed an actuarial valuation of the Employee Benefits of the employer's liability as arising from the post-retirement healthcare subsidy ("RHS") payable to current and retired employees.

The valuation is in line with the requirements of GRAP 25 and have determined the items required for disclosure in terms of this standard.

Please refer to note 18.2 and 19.1 for details about these valuations.

### 7. Non-current assets

There were no major changes in the nature of the non-current assets of the municipality during the year.

### 8. Accounting Officer

The accounting officers of the municipality during the year and to the date of this report are as follows:

Name	Nationality	Changes
Mr. STR Ramakarane	RSA	Resigned Thursday, 30 June 2022
Mr. TP Motsima (Acting)	RSA	Appointed Friday, 01 July 2022

### 9. Auditors

Auditor-General of South Africa (AGSA) will continue in office for the next financial period.

# **Setsoto Local Municipality**

Annual Financial Statements for the year ended 30 June 2022

## **Accounting Officer's Report**

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### **10. Jurisdiction**

Setsoto Local Municipality includes the following areas:

- Ficksburg
- Senekal
- Marquard
- Clocolan

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**Mr. TP Motsima**  
**Acting Municipal Manager**

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## General Information

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<b>Legal form of entity</b>	A municipality which is an organ of state within the local sphere of government exercising legislative and executive authority.
<b>Nature of business and principal activities</b>	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
<b>Legislation governing the municipality's operations</b>	Municipal Finance Management Act (Act 56 of 2003) Municipal Systems Act (No.32 of 2000) Municipal Systems Amendment Act (No.44 of 2003) Municipal Structures Act (No. 117 of 1998) Municipal Structures Amendment Act (No. 33 of 2000) Housing Act (No. 107 of 1997) Constitution of the Republic of South Africa (No. 108 of 1996) Property Rates Act (No. 6 of 2004) Annual Division of Revenue Act Municipal Demarcation Act (No. 27 of 1998) Transition Act Second Amendment (No. 97 of 1996) Water Services Act (No. 108 of 1997) Electricity Act (No. 41 of 1987) Intergovernmental Fiscal Relations Act (No. 97 of 1997) Intergovernmental Relations Framework Act (No. 13 of 2005)

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## General Information

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### Portfolio

Executive mayor

### Councillor

Maveleliso, PI (1 July 2021 - 8 November 2021)

Mbiwe, SJ (From 9 November 2021)

Speaker

Mokhuoane, KS (1 July 2021 - 30 September 2021)

Maveleliso, PI (From 9 November 2021)

Mayoral committee

Mthimkulu, ML (1 July 2021 - 8 November 2021)

Hlakane, MM (1 July 2021 - 8 November 2021)

Jakobo, TB (1 July 2021 - 8 November 2021)

Selikane, TS (1 July 2021 - 8 November 2021)

Sellane, M (1 July 2021 - 8 November 2021)

Selasi, MW (From 9 November 2021)

Koalane, KE (From 9 November 2021)

Mthimkulu, TI (From 9 November 2021)

Ancell, T (From 9 November 2021)

Makae, TE (From 9 November 2021)

Koqo, PE (From 9 November 2021)

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## General Information

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### Council members

<b>No</b>	<b>Surname</b>	<b>Initials</b>
1	Semahla	MH (1 July 2021 - 8 November 2021)
2	Mothibeli	MM (1 July 2021 - 30 September 2021)
3	Selasi	MW (1 July 2021 - 8 November 2021)
4	Koalane	KE (1 July 2021 - 8 November 2021)
5	Strydom	EP (1 July 2021 - 8 November 2021)
6	Khatlake	NP (1 July 2021 - 8 November 2021)
7	Khitsane	NP (1 July 2021 - 8 November 2021)
8	Koqo	PE (1 July 2021 - 8 November 2021)
9	Lipoko	RS (1 July 2021 - 8 November 2021)
10	Makhubu	NS (1 July 2021 - 8 November 2021)
11	Makobane	SI (1 July 2021 - 30 September 2021)
12	Maoke	AN (1 July 2021 - 8 November 2021)
13	Matobako	PC (1 July 2021 - 30 September 2021)
14	Matsau	MP (1 July 2021 - 8 November 2021)
15	Mokhele	MM (1 July 2021 - 8 November 2021)
16	Mthimkhulu	TI (1 July 2021 - 8 November 2021)
17	Schee	PC (1 July 2021 - 8 November 2021)
18	Taylor	NA (1 July 2021 - 8 November 2021)
19	Vries	I (1 July 2021 - 30 September 2021)
20	Makhalanyane	TG (1 July 2021 - 8 November 2021)
21	Moipatli	CD (1 July 2021 - 8 November 2021)
22	Mohosho	AM (1 July 2021 - 8 November 2021)
23	Mathuhle	MJ (1 July 2021 - 8 November 2021)
24	Heymans	MC (1 July 2021 - 8 November 2021)
25	Ralehlatsi	MK (1 July 2021 - 30 September 2021)
26	Mokoena	TJ (1 July 2021 - 8 November 2021)



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## General Information

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27	Manako	TS (From 9 November 2021)
28	Mokheseng	SM (From 9 November 2021)
29	Mokoakoe	LG (From 9 November 2021)
30	Dell	H (From 9 November 2021)
31	Motloenya	LE (From 9 November 2021)
32	Janssonius	JM (From 9 November 2021)
33	Mohanoe	LE (From 9 November 2021)
34	Letube	ME (From 9 November 2021)
35	Mopatli	CD (From 9 November 2021)
36	Vries	I (From 9 November 2021)
37	Saayman	F (From 9 November 2021 - 10 January 2022)
38	Constable	SM (From 9 November 2021)
39	Odendaal	MF (From 9 November 2021)
40	Oberholzer	IE (From 9 November 2021)
41	Motsoane	TP (From 9 November 2021)
42	Mofokeng	MD (From 9 November 2021)
43	Ponya	MA (From 9 November 2021)
44	Maleke	MJ (From 9 November 2021)
45	Langa	TL (From 9 November 2021)
46	Thamae	LD (From 9 November 2021)
47	Mokhobo	MJ (From 9 November 2021)
48	Vermeulen	PJ (From 11 January 2022)
49	Heymans	MC (From 9 November 2021)
50	Makhalanyane	TG (From 9 November 2021)
51	Khatlake	NP (From 9 November 2021)
52	Mokhele	MM (From 9 November 2021)

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## General Information

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<b>Grading of local authority</b>	06 - Medium Capacity
<b>Accounting Officer</b>	Mr. STR Ramakarane (1 July 2021 - 30 June 2022) Mr. TP Motsima (Acting) (From 1 July 2022)
<b>Chief Financial Officer (CFO)</b>	Mr. NL Moletsane
<b>Registered head office</b>	27 Voortrekker Street Ficksburg 9730
<b>Postal address</b>	P O Box 116 Ficksburg 9730
<b>Telephone</b>	(051) 933 9300
<b>Fax</b>	(051) 933 9363
<b>Bankers</b>	First National Bank, a division of First Rand Limited
<b>Auditors</b>	Auditor-General of South Africa (AGSA)
<b>Demarcation code</b>	FS191
<b>Legal manager</b>	PM Koalane P O Box 116, Ficksburg, 9730 matshediso@setsoto.co.za

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Officer's Responsibilities and Approval

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The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are 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 Accounting Practice (GRAP) as well as relevant interpretations, guidelines and directives issued by the Accounting Standards Board as required by in terms of Section 122 of the Municipal Finance Management Act (No.56 of 2003).

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

We, as the accounting officers (accounting authority) acknowledge that 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 us to meet these responsibilities, we have 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.

We 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.

We have reviewed the municipality's cash flow forecast for the year to 30 June 2023 and, in the light of this review and the current financial position, we are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future. The financial statements are prepared on the basis that the municipality is a going concern and that the Setsoto Local Municipality has neither the intention nor the need to liquidate or curtail materially its scale.

We would like to bring the following material matters to your attention:

We 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 annual financial statements set out on pages 14 to 145, in terms of Section 126(1) of the Municipal Finance Management Act (Act 56 of 2003), which have been prepared on the going concern basis and which we have signed on behalf of the municipality on 31 August 2022:

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**Mr. TP Motsima**  
**Acting Municipal Manager**

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Abbreviations

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DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
LGSETA	Local Government Services Sector Education and Training Authority
MSIG	Municipal System Improvement Grant
NDPG	Neighbourhood Development And Partnership Grant
SRAC	Sports, Recreation, Arts and Culture
COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
SA GAAP	South Arican Statements of Generally Accepted Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME'S	Municipal Entities
MEC	Member of Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant
COGTA	Department of Co-operative Governance and Traditional Affairs
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers
mSCOA	Municipal Standard Chart of Accounts
IGRAP	Interpretation of the South African Standards of Generally Recognised Accounting Practice

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Comparison of Budget and Actual Amounts for the year ended 30 June 2022

	Original budget	*Budget adjustments	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Figures in Rand							
<b>2022</b>							
<b>Statement of financial performance</b>							
<b>Revenue</b>							
Property rates	70 461 996	-	70 461 996	56 168 444	(14 293 552)	79.71 %	79.71 %
Service charges	241 013 496	1 001	241 014 497	229 200 013	(11 814 484)	95.10 %	95.10 %
Investment revenue	5 025 000	-	5 025 000	4 820 197	(204 803)	95.92 %	95.92 %
Transfers recognised – operational	216 707 801	-	216 707 801	217 481 860	774 059	100.36 %	100.36 %
Other own revenue	43 191 008	749 133	43 940 141	42 302 874	(1 637 267)	96.27 %	97.94 %
<b>Total revenue (excl capital transfers and contributions)</b>	<b>576 399 301</b>	<b>750 134</b>	<b>577 149 435</b>	<b>549 973 388</b>	<b>(27 176 047)</b>	<b>95.29 %</b>	<b>95.42 %</b>
<b>Expenditure</b>							
Employee cost	(250 302 000)	30 780 520	(219 521 480)	(224 507 229)	(4 985 749)	102.27 %	89.69 %
Remuneration of councillors	(14 355 180)	788 014	(13 567 166)	(12 871 343)	695 823	94.87 %	89.66 %
Depreciation, amortisation and impairment losses assets	(120 865 032)	-	(120 865 032)	(287 246 232)	(166 381 200)	237.66 %	237.66 %
Finance charges	(3 999 996)	(56 000)	(4 055 996)	(4 660 724)	(604 728)	114.91 %	116.52 %
Materials and bulk purchases	(132 573 000)	14 322 000	(118 251 000)	(105 187 273)	13 063 727	88.95 %	79.34 %
Transfers and grants	(4 639 896)	(10 135 604)	(14 775 500)	(128 697)	14 646 803	0.87 %	2.77 %
Other expenditure	(108 010 488)	(64 569 294)	(172 579 782)	(181 032 823)	(8 453 041)	104.90 %	167.61 %
<b>Total expenditure</b>	<b>(634 745 592)</b>	<b>(28 870 364)</b>	<b>(663 615 956)</b>	<b>(815 634 321)</b>	<b>(152 018 365)</b>	<b>122.91 %</b>	<b>128.50 %</b>
<b>Deficit</b>	<b>(58 346 291)</b>	<b>(28 120 230)</b>	<b>(86 466 521)</b>	<b>(265 660 933)</b>	<b>(179 194 412)</b>	<b>307.24 %</b>	<b>455.32 %</b>
Transfers and subsidies - Capital	189 617 000	-	189 617 000	141 107 276	(48 509 724)	74.42 %	74.42 %
<b>Deficit after capital transfers and contributions</b>	<b>131 270 709</b>	<b>(28 120 230)</b>	<b>103 150 479</b>	<b>(124 553 657)</b>	<b>(227 704 136)</b>	<b>(120.75)%</b>	<b>(94.88)%</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Comparison of Budget and Actual Amounts for the year ended 30 June 2022

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	Original budget	*Budget adjustments	Final budget	Actual outcome	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
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Figures in Rand

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### Commentary

Reasons for variances between the budgeted and actual amounts greater than 10%:

1. Finance costs:

There was a decrease in finance cost due to external loans being fully redeemed.

2. Transfers and subsidies paid:

The increase was due to an increase in subsidies provided to the poor.

3. Transfers and subsidies received - Capital:

Decrease due to an underspending of grants received.

4. Depreciation and amortisation:

Under budget on depreciation. (Non-cash item).

# Setsotho Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Financial Position as at 30 June 2022

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	2	93 197 341	45 525 760
Receivables from exchange transactions	3	207 910 441	203 055 649 *
Receivables from non-exchange transactions	4	56 716 517	45 921 313 *
Inventories	5	2 613 267	2 790 231 *
VAT receivable	6	48 976 496	31 160 598 *
Other current assets	7	9 546 969	9 459 699 *
		<b>418 961 031</b>	<b>337 913 250</b>
<b>Non-Current Assets</b>			
Other financial assets	8	3 673 282	3 615 507
Investment property	9	73 849 011	89 680 336 *
Property, plant and equipment	10	2 468 431 783	2 626 104 291 *
Heritage assets	11	15 385 903	15 385 903
Intangible assets	12	173 129	545 253
		<b>2 561 513 108</b>	<b>2 735 331 290</b>
<b>Total Assets</b>		<b>2 980 474 139</b>	<b>3 073 244 540</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Financial liabilities	13	734 232	657 821 *
Finance leases	14	1 627 032	8 387 312 *
Consumer deposits	15	3 205 324	3 194 029
Payables from exchange transactions	16	123 388 421	120 040 848 *
Unspent grants	17	83 261 152	55 259 611
Provisions and other employee liabilities	18	2 398 801	1 959 000 *
Post-retirement health care benefit liability	19	1 864 445	1 389 000 *
		<b>216 479 407</b>	<b>190 887 621</b>
<b>Non-Current Liabilities</b>			
Financial liabilities	13	1 265 103	1 999 335 *
Finance leases	14	-	1 627 034 *
Provisions and other employee liabilities	18	44 291 879	41 244 894 *
Post-retirement health care benefit liability	19	57 631 751	52 126 000 *
		<b>103 188 733</b>	<b>96 997 263</b>
<b>Total Liabilities</b>		<b>319 668 140</b>	<b>287 884 884</b>
<b>Net Assets</b>		<b>2 660 805 999</b>	<b>2 785 359 656</b>
<b>Net assets presented by:</b>			
Accumulated surplus		2 660 805 999	2 785 359 656

\* See Note 55

# Setso Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Financial Performance

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Revenue</b>			
<b>Non-exchange revenue</b>			
Property rates	20	56 168 444	66 008 532 *
Availability charges - Electricity		235 779	181 910 *
Availability charges - Waste water management		380 504	363 902 *
Availability charges - Water		604 645	562 239 *
Licences or permits	28	51 201	70 242
Transfers and subsidies	29	358 589 136	411 240 534 *
Fines, penalties and forfeits	27	890 770	1 104 926 *
Interest on receivables	25	4 132 568	3 474 137 *
<b>Total non-exchange revenue</b>		<b>421 053 047</b>	<b>483 006 422</b>
<b>Exchange revenue</b>			
Services charges - Electricity	21	91 140 712	87 253 648 *
Services charges - Waste management	21	43 059 455	43 169 853 *
Services charges - Waste water management	21	33 289 600	33 255 288 *
Services charges - Water	21	60 489 318	57 595 712 *
Rental	23	2 024 701	1 347 653
Interests on investments	24	4 764 793	1 966 514 *
Interest earned from receivables	25	30 166 577	25 323 759 *
Dividends	26	55 404	46 880
Operational revenue	30	3 052 064	2 160 633 *
Sales of goods and rendering of services	22	1 984 993	2 222 854 *
<b>Total exchange revenue</b>		<b>270 027 617</b>	<b>254 342 794</b>
<b>Total revenue</b>		<b>691 080 664</b>	<b>737 349 216</b>
<b>Expenditure</b>			
Employee related cost	32	(224 507 229)	(223 273 371)*
Remuneration of councillors	33	(12 871 343)	(12 967 130)
Bad debts written off		(113 923 847)	(84 986 214)*
Depreciation and amortisation	34	(259 882 269)	(394 743 797)*
Impairment losses on assets	35	(27 675 432)	(76 946 775)*
Finance costs	36	(4 660 724)	(5 933 749)*
Bulk Purchases	37	(93 222 334)	(80 035 213)
Inventory consumed	38	(11 964 939)	(9 114 318)*
Contracted services	39	(25 837 558)	(24 336 156)*
Transfers and subsidies		(128 697)	(51 572)*
Operational costs	40	(32 564 311)	(26 146 795)*
Operating leases	41	(1 080 180)	(1 077 023)*
Fair value adjustments and loss on disposal of assets	31	(7 315 458)	(12 484 216)*
<b>Total expenditure</b>		<b>(815 634 321)</b>	<b>(952 096 329)</b>
<b>Deficit for the year</b>		<b>(124 553 657)</b>	<b>(214 747 113)</b>

\* See Note 55



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Cash Flow Statement

Figures in Rand	Note(s)	2022	2021 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property rates		42 882 877	56 332 257 *
Sale of goods and services		115 248 933	79 130 059 *
Other receipts		7 289 923	5 762 280 *
Grants		386 590 677	405 089 382 *
Fines, penalties and forfeits		890 770	1 104 926 *
Interest		39 063 938	30 760 371
Dividends		55 404	46 880
<b>Payments</b>			
Employees		(229 032 231)	(223 982 725)*
Suppliers		(165 797 087)	(150 789 356)*
Finance costs		(2 089 772)	(3 645 564)*
VAT		(17 815 898)	(19 158 615)*
<b>Net cash from(used) operating activities</b>	42	<b>177 287 534</b>	<b>180 649 895</b>
<b>Cash flows from investing activities</b>			
<b>Receipts</b>			
Proceeds on disposal of fixed and intangible assets		477 805	562 812
Proceeds from investments		37 500	-
<b>Payments</b>			
Capital assets		(121 086 120)	(157 756 605)
<b>Net cash flows from investing activities</b>		<b>(120 570 815)</b>	<b>(157 193 793)</b>
<b>Cash flows from financing activities</b>			
<b>Payments</b>			
Decrease in borrowings		(9 045 138)	(8 100 847)
<b>Net increase/(decrease) in cash</b>		<b>47 671 581</b>	<b>15 355 255</b>
Cash and cash equivalents at year begin		45 525 760	30 170 505
	2	<b>93 197 341</b>	<b>45 525 760</b>

\* See Note 55

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
<b>Balance at 01 July 2020</b>	<b>2 982 608 713</b>	<b>2 982 608 713</b>
Restated* Surplus for the year	(214 747 113)	(214 747 113)
Total changes	(214 747 113)	(214 747 113)
	<b>2 767 861 600</b>	<b>2 767 861 600</b>
Adjustments:		
Correction of errors	17 498 056	17 498 056
<b>Restated* Balance at 01 July 2021</b>	<b>2 785 359 656</b>	<b>2 785 359 656</b>
Surplus for the year	(124 553 657)	(124 553 657)
Total changes	(124 553 657)	(124 553 657)
<b>Balance at 30 June 2022</b>	<b>2 660 805 999</b>	<b>2 660 805 999</b>

\* See Note 55

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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The annual financial statements of Setsoto Local Municipality for the year ended 30 June 2022 were authorised for issue by the Accounting Officers on 31 August 2022.

The 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 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.

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

### 1. Summary of significant accounting policies

#### 1.1 New standards and interpretations

##### **Standards, amendments to standards and interpretations effective and adopted in the current year**

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

GRAP 108 on Statutory Receivables is effective for the reporting periods beginning on or after 1 July 2019. GRAP 108 prescribes the accounting requirements for the recognition, measurement, presentation and disclosure of receivables that arise from legislation, supporting regulation for similar means and require settlement by another entity in cash or another financial asset. The municipality has already based its accounting policies and disclosures on this standard, and there is therefore no further impact on the annual financial statements.

GRAP 18 on Segment Reporting is effective for the reporting periods beginning on or after 1 July 2020. GRAP 18 establishes principles for the reporting of financial information by segments. The municipality has implemented this Standard in the current reporting period.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.1 New standards and interpretations (continued)

#### Standards, amendments to standards and interpretations issued, but not yet effective

At the date of authorisation of these annual financial statements, the following GRAP Standards (including Interpretations and Directives) have been issued, but are not yet effective for the year presented and have not been early adopted by the municipality:

Standard / Interpretation	Effective date	Expected impact
GRAP 25 : Employee benefits (revised)	To be determined	Unlikely there will be a material impact
GRAP 103 : Heritage assets (revised)	To be determined	Unlikely there will be a material impact
GRAP 104 : Financial instruments (revised)	To be determined	Unlikely there will be a material impact
IGRAP 7 : The limit on a defined benefit asset, minimum funding requirements and their interaction (revised)	To be determined	Unlikely there will be a material impact
IGRAP 21 : The effect of past decisions on materiality	To be determined	Unlikely there will be a material impact
Guideline : Accounting for landfill sites	To be determined	Unlikely there will be a material impact

### 1.2 Presentation currency

These annual financial statements are presented in South African Rand, which is the functional currency of the municipality.

### 1.3 Going concern assumption

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

### 1.4 Offsetting

Financial assets and liabilities are offset and the net amount reported on the Statement of financial position only when there is a legally enforceable right to set off the recognised amount, and there is an intention to settle on a net basis, or to realise the asset and settle the liability simultaneously.

### 1.5 Current year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

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

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.6 Significant judgements and estimates

In the application of the municipality's accounting policies, which are described below, management is required to make judgements, estimates and assumption that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The estimates and associated assumptions are based on historical experiences and other factors that are considered reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

#### 1.6.1 Judgements

The following are the critical judgements, apart from those involving estimations, that management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in the annual financial statements:

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

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

The impairment of trade receivables, held to maturity investments and loans and 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.

##### **Operating lease commitments**

Leases where risks and rewards of ownership are not transferred to the lessee are classified as operating leases. Payments received under operating leases are recognised in the statement of financial performance on a straight-line basis over the period of the lease.

##### **Allowance for slow moving, damaged and obsolete stock**

An allowance for management to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operating cost note.

# Setso Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.6 Significant judgements and estimates (continued)

#### 1.6.2 Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below:

##### **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) included 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 obligations. In determining the appropriate discount rate, the municipality considers the interest rate 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 liability.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in note 18.2 and note 19.1.

##### **Effective interest rate**

The municipality uses an appropriate interest rate, taking into account guidance provided in the accounting standards, and applying professional judgement to the specific circumstances, to discount future cash flows.

Appropriate adjustments have been made to compensate for the effect of deferred settlement that material impact on the fair value of the financial instruments, revenue and expenses at initial recognition. The adjustments require a degree of estimation around the discount rate and periods used.

##### **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.

##### **Fair value estimation**

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

##### **Useful lives of waste, water networks 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.

##### **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 value less cost to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

# Setso Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.6 Significant judgements and estimates (continued)

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

#### Provisions

Provisions were raised and management determined and estimate based on the available information. Additional disclosure of these estimates of provisions are included in note 18.1 - Provisions.

#### Budget information

Management assumes deviations between budget and actual amounts to be material when a deviation of more than 10% exists. All material differences are explained in the notes to the annual financial statements.

### 1.7 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are carried at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts.

### 1.8 Inventory

Inventory consist of raw materials and consumables, which are valued at the lower of cost, determined on the first in first out basis, and net realisable value. Where it is held for distribution or consumption at no charge or for a nominal amount, inventories are valued at the lower of cost and current replacement value. Current replacement cost is the cost the municipality incurs to acquire the asset on the reporting date.

Where inventories are acquired through a non-exchange transaction, then their cost is the fair value as at the date of acquisition.

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

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

Redundant and slow moving inventory are identified and written down to their estimated net realisable values estimated by management. Inventories are written down according to their age, condition and utility. Differences arising on the measurement of such inventory at the lower of cost and net realisable value are recognised In the Statement of financial performance in the year in which they arise. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

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

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.9 Investment property

Investment property includes property held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, administrative purposes or the sale of an asset in the ordinary course of operations. Investment property also includes land held for an undetermined future use.

#### Initial recognition

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

Where the classification of an investment property is based on management's judgement, the following criteria have been applied to distinguish investment properties from owner-occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as investment properties;
- Land held for a currently undetermined future use;
- A building owned (or held by under a finance lease) and leased out under one or more operating leases;
- Leased properties that are held to provide a social (community) service or that are necessary for employees to perform their job functions, but which also generates rental revenue are not seen as investment properties. The rental revenue generated is incidental to the purposes for which the property is held;
- A building that is vacant but is held to be leased out under one or more operating leases;
- Property that is being constructed or developed for future use as investment property.

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

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property can be measured reliably.

Cost 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 replacement part is derecognised.

#### Subsequent measurement – cost model

Subsequent to initial recognition, investment properties are measured using the cost model, and is carried at cost less accumulated depreciation and any accumulated impairment losses.

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

- Property - land : indefinite
- Property - buildings : 15-80 years

#### Derecognition/Disposal

Investment properties are derecognised (eliminated from the Statement of financial position) 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. The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of financial performance.

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

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 discloses relevant information relating to assets under construction or development in the notes to the financial statements. Refer to note 10.



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.10 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, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

#### Initial recognition and measurement

Property, plant and equipment are initially recognised at cost on its acquisition date. 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset 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.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as 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.

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

#### Subsequent measurement – cost model

Subsequently all property, plant and equipment, excluding land and buildings, are measured at cost, less accumulated depreciation and accumulated impairment losses.

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

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

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

#### Depreciation

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated using the straight line method, to allocate their cost or revalued amounts less their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the assets' future economic benefits or service potential are expected to be consumed by the municipality. 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 rates are based on the following estimated useful lives:

---

Asset class	Useful lives (Years)
Buildings	
• Buildings	10 - 80 years
Infrastructure assets	
• Electricity	5 - 50 years
• Waste management	5 - 40 years
• Roads, pavements, bridges and storm water	5 - 80 years
• Water	5 - 80 years
• Waste water management	10 - 60 years
Community assets	
• Buildings and other structures (Community)	25 - 50 years
Leased assets	5 - 20 years
Transport assets	
• Transport assets	5 - 20 years
Other assets	
• Furniture and office equipment	5 - 10 years
• Plant and machinery	2 - 20 years
• Office equipment	3 - 7 years
• IT Equipment	3 - 7 years
• Computer equipment	3 - 6 years
• Other PPE	3 - 7 years

The estimated useful life, residual values and depreciation method are assessed at each reporting date on an indicator basis.

The useful lives, residual values and depreciation method are reviewed annually at the end of the financial year where there is any indication that the municipality's expectations about the residual amount and the useful life of an asset has changed since the preceding reporting date. Any adjustments arising from the annual review are applied prospectively.

Depreciation of an asset commences when the asset is ready for its intended use. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, the term of the relevant lease. The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is ready for use.

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.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

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

#### Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised.

Gains or losses are calculated as the difference between the carrying values of assets (Cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of financial performance as a gain or loss on disposal of property, plant and equipment.

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.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or surplus when the compensation becomes receivable.

#### Site rehabilitation and restoration costs

Where the municipality has an obligation to rehabilitate and restore items of property, plant and equipment such obligations are referred to as "rehabilitation provisions". The cost of an item of property, plant and equipment includes the initial estimate of the costs of rehabilitation and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period.

As 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.

### 1.11 Heritage assets

A heritage asset is defined as an asset that has a cultural, environmental, historical, natural, scientific, technological or artistic significance, and is held and preserved indefinitely for the benefit of present and future generations.

The municipality classifies assets as heritage assets where the significance as a heritage asset can be determined. In regards to land and buildings all graded sites are classified heritage assets. Furthermore land with a natural significance is not componentised but seen as a single heritage asset due to all parts contributing together to make up its significance.

Land and buildings that qualify as heritage asset, but of which a significant portion of that land and buildings is held for use in the production or supply of goods or services or for administrative purposes, are recognised as property, plant and equipment, rather than heritage asset.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.11 Heritage assets (continued)

#### Initial recognition and measurement

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

Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of heritage assets 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 the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired. The cost of an item of heritage assets acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

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.

#### Subsequent measurement

Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all heritage assets (excluding heritage assets which are land and buildings) are measured at cost less accumulated impairment losses. Heritage assets are not depreciated.

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

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

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

#### Derecognition

The carrying amount of an item of heritage assets is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

Gains or losses are calculated as the difference between the carrying value of assets (cost less accumulated impairment losses) and the disposal proceeds is included in the Statement of financial performance as a gain or loss on disposal of heritage assets.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.11 Heritage assets (continued)

#### 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.

### 1.12 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets.

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale
- there is an intention to complete and use or sell it
- there is an ability to use or sell it
- it will generate probable future economic benefits or service potential
- there are available technical, financial and other resources to complete the development and to use or sell the asset
- the expenditure attributable to the asset during its development can be measured reliably

#### Initial recognition and measurement

Intangible assets are initially recognised at cost. The cost of an intangible assets is the purchase price and other costs attributable to bring the intangible assets to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible assets is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.12 Intangible assets (continued)

#### Subsequent measurement

Amortisation is calculated on cost, using the straight-line method, over the useful lives of the assets, which is estimated to be between 3 to 5 years upon initial recognition. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised.

Intangible assets are annually tested for impairment and the estimated useful life, residual values and amortisation method are reviewed annually at the end of the financial year. Any adjustments arising from the annual review are applied prospectively.

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

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

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

#### Derecognition

Intangible assets 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 on the disposal or retirement of an intangible assets is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of financial performance.

### 1.13 Borrowing costs

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

Borrowing costs are recognised as an expense in the Statement of financial performance in the period in which they are incurred.

### 1.14 Impairment of property, plant and equipment, investment property, intangible assets and heritage assets

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. A commercial return means that the return charged by the entity is commensurate with the risk associated with holding the asset and the asset is intended to generate positive cash inflows. All other assets are classified as non-cash-generating assets.

#### Impairment of cash-generating assets

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.

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

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 recoverable amount of the cash-generating unit to which the asset belongs is determined.

The best evidence of fair value less cost to sell is the price in a binding sale agreement in an arm's length transaction, adjusted for the incremental cost that would be directly attributable to the disposal of the asset.

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

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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### 1.14 Impairment of property, plant and equipment, investment property, intangible assets and heritage assets (continued)

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 and the municipality applies the appropriate discount rate to those future cash flows.

If the recoverable amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

An impairment loss is recognised for cash-generating units if the recoverable amount of the unit is less than the carrying amount of the unit. The impairment loss is allocated to reduce the carrying amount of the assets of the unit, pro rata on the basis of the carrying amount of each asset in the unit.

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit.

#### 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.

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.

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

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

If there is any indication that an asset may be impaired, the recoverable service amount is estimated for the individual asset. If it is not possible to estimate the recoverable service amount of the individual asset, the recoverable service amount of the cash-generating unit to which the asset belongs is determined.

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

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

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

If the recoverable service amount of an asset is less than its carrying amount, the carrying amount of the asset is reduced to its recoverable service amount. That reduction is an impairment loss.

An impairment loss of assets carried at cost less any accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any impairment loss of a revalued asset is treated as a revaluation decrease.

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### 1.14 Impairment of property, plant and equipment, investment property, intangible assets and heritage assets (continued)

A municipality assesses at each reporting date whether there is any indication that an impairment loss recognised in prior periods for assets may no longer exist or may have decreased. If any such indication exists, the recoverable service amounts of those assets are estimated.

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 had no impairment loss been recognised for the asset in prior periods.

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.

A reversal of an impairment loss of assets carried at cost less accumulated depreciation or amortisation is recognised immediately in surplus or deficit. Any reversal of an impairment loss of a revalued asset is treated as a revaluation increase.

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

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

Depreciated replacement cost approach:

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

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

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.



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### 1.15 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. Financial instruments are classified into three categories namely, financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost. The municipality determines the classification of its financial instruments at initial recognition.

Financial Instruments are categorised according to their nature as either financial instruments at fair value, held at amortised cost, or held at cost. The classification depends on purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at every reporting date.

#### 1.15.1 Classification of financial instruments

##### Financial assets

A financial asset is any asset that is a cash or contractual right to receive cash.

Financial asset at amortised cost being a non-derivative financial asset with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets.

Financial assets measured at fair value being financial assets that meet either of the following conditions:

- Derivatives;
- Combined instruments that are designated at fair value;
- Instruments held for trading;
- Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
- Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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

The municipality has the following types of financial assets as reflected on the face of the Statement of financial position or in the notes thereto:

Type of financial asset	Classification in terms of GRAP 104
Consumer debtors	Financial assets at amortised cost
Other debtors	Financial assets at amortised cost
Short-term investment deposit - Call	Financial assets at amortised cost
Bank balances and cash	Financial assets at amortised cost
Investments in stock - Sanlam and OVK	Financial assets at fair value

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the Cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets at amortised cost.

# Setsoto Local Municipality

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## Accounting Policies

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### 1.15 Financial instruments (continued)

#### Financial liabilities and finance leases

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

The following main categories of financial liabilities and finance leases and the classification determining how they are measured exist:

- Financial liabilities and finance leases measured at amortised cost; or
- Financial liabilities and finance leases measured at fair value.

The municipality has the following types of financial liabilities and finance leases as reflected on the face of the Statement of financial position or in the notes thereto:

Type of financial liability	Classification in terms of GRAP 104
Payables from exchange transactions	Financial liability at amortised cost
Financial liabilities	Financial liability at amortised cost
Finance leases	Financial liability at amortised cost
Consumer deposits	Financial liability at amortised cost

Financial liabilities and finance leases that are measured at fair value that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial liabilities and finance leases where there is recent actual evidence of short-term profiteering or are derivatives).

Any other financial liabilities and finance leases should be classified as financial liabilities and finance leases at amortised cost.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

#### 1.15.2 Initial and subsequent measurement

##### Initial recognition and measurement

A financial instruments is recognised, when the municipality becomes a party to the contractual provisions of the instrument, and are initially measured at fair value. In the case of a financial instruments not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instruments are added or deducted from the fair value, as appropriate on initial recognition.

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## Accounting Policies

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### 1.15 Financial instruments (continued)

#### Subsequent measurement – Financial assets

Financial assets consist of cash and cash equivalents, deposits, receivables and investments.

##### Debtors:

Receivables are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

A provision for impairment of receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Changes in the carrying amount of the provision is recognised in the Statement of financial performance. When a receivable is considered uncollectible, it is written off against the provision. Any gains or losses arising from the change in fair value of investments measured at fair value are recognised in the Statement of financial performance.

Residual interests that do not have a quoted market price in an active market, and the fair value of which cannot be reliably are subsequently measured at cost less any impairment. Impairment is considered when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Any calculated impairment is recognised in the Statement of financial performance.

##### Fixed and negotiable deposits:

Fixed and negotiable deposits are non-derivative financial assets with fixed or determinable payments and fixed maturities that the municipality will hold to maturity.

Fixed and negotiable deposits are initially and subsequently measured at fair value which in the case of investments that have an original maturity date of less than 12 months equates the cost. Fixed and negotiable deposits held for greater than 12 months are fair valued annually and the difference recognised in the statement of financial performance.

On disposal of Fixed and negotiable deposits, the difference between the net disposal proceeds and the carrying amount is charged or credited to the Statement of Financial Performance.

##### Loans and receivables:

Loans and receivables are measured initially and subsequently at fair value, gains and losses arising from changes in fair value are included in the Statement of Financial Performance for the period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and with no intention of trading. They are included in current assets, except for maturities greater than 12 months after the Statement of Financial Position date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the Statement of Financial Position.

#### Subsequent measurement – Financial liabilities and finance leases

Financial liabilities consist of payables, interest bearing loans and bank overdrafts. These liabilities are subsequently measured at amortised cost, using the effective interest rate method. Finance costs are expensed in the Statement of financial performance in the period in which they are incurred except where stated otherwise (see accounting policy on borrowing costs).

##### Borrowings and other financial liabilities:

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the statement of financial performance over the period of the borrowings using the effective interest method.

Long term borrowings are non-derivative financial loans and the Municipality does not hold financial loans for trading purposes. Long term borrowings are utilised solely for funding capital projects and the book value is disclosed at amortised cost.

Other financial liabilities are carried at amortised cost

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.15 Financial instruments (continued)

#### 1.15.3 Impairment of financial assets

##### Consumer debtors

Consumer debtors are assessed individually thereafter collectively, considering factors such as payment histories and ratios, qualitative factors e.g. correspondence from attorneys, disputes about certain accounts, etc.

#### 1.15.4 Derecognition

##### Financial assets

The municipality derecognises financial assets only when the contractual rights to the cash flows from the asset expires or it transfers the financial assets and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of financial assets due to non-recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial assets, the municipality continues to recognise the financial assets and also recognises a collateralised borrowing for the proceeds received.

##### Financial liabilities and finance leases

The municipality derecognises financial liabilities and finance leases when, and only when, the municipality's obligations are discharged, cancelled or they expire.

#### 1.15.5 Fair value measurement considerations

The best evidence of fair value is quoted prices in an active market. If the market for a financial instruments is not active, the municipality establishes fair value using a valuation technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on municipality-specific inputs.

### 1.16 Provisions and other employee liabilities

Provisions and other employee liabilities are recognised when the municipality has a present (legal or constructive) obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, where the provision being measured involves a large population of items; the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions and other employee liabilities are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions and other employee liabilities are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions and other employee liabilities are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of financial performance as a finance cost as it occurs.

# Setsoto Local Municipality

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### 1.16 Provisions and other employee liabilities (continued)

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

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

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.

#### Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of financial performance.

### 1.17 Employee benefits

The municipality provides short term benefits, long term benefits and retirement benefits for its employees and councillors.

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

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

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

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

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

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

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

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

# Setsoto Local Municipality

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### 1.17 Employee benefits (continued)

#### Short-term employee benefits

Remuneration to employees is recognised in the Statement of financial performance as the services are rendered, except for non-accumulating benefits which are only recognised when the specific event occurs.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service.

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.

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

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

Short-term employee benefits include items such as:

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

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

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

#### Leave pay

Liabilities for annual leave are recognised as they accrue to employees. The liability is based on the total accrued leave days at year end and is shown as an accrual in the Statement of financial position.

#### Bonus provisions

The municipality recognises the expected cost of bonuses as a provision only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made at reporting date.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

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### 1.17 Employee benefits (continued)

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

A defined contribution plan is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of financial performance in the period in which the service is rendered by the relevant employees.

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.

#### Post-retirement health care benefits

The municipality has an obligation to provide post-retirement health care benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and unrecognised actuarial gains and losses, reduced by unrecognised past service costs. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and a discount rate based on the government bond rate. Valuations of these obligations are carried out annually by independent qualified actuaries.

Past-service costs are recognised immediately, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortised on a straight-line basis over the vesting period.

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.

#### Long-service allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, calculated in terms of the rules of the scheme, after 10, 15, 20, 25 and 30 years of continued service. The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the Statement of financial performance.

#### National- and provincially administered defined benefit plans

The municipality contributes to various National- and Provincial-administered Defined Benefit Plans on behalf of its qualifying employees. The contributions to fund obligations for the payment of retirement benefits are charged against revenue in the year they become payable. These defined benefit funds are actuarially valued tri-annually on the projected unit credit method basis.

Deficits are recovered through lump sum payments or increased future contributions on a proportional basis from all participating municipalities.

The municipality does not apply defined benefit accounting to the defined benefit funds to which it is a member where these funds are classified in terms of the Standard of GRAP 25 on Employee Benefits as multi employer plans, as sufficient information is not available to apply the principals involved. As a result, this standard of GRAP is applied and such funds are accounted for as defined contribution funds.

# Setsoto Local Municipality

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### 1.18 Leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

#### Municipality as lessee

Property, plant and equipment subject to finance lease agreements are capitalised at their cash cost equivalent. Corresponding liabilities are included in the Statement of financial position as Finance Lease Obligations. The cost of the item of property, plant and equipment is depreciated at appropriate rates on the straight-line basis over its estimated useful life. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised on the straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### Municipality as lessor

Amounts due from lessees under finance leases or installment sale agreements are recorded as receivables at the amount of the municipality's net investment in the leases. Finance lease or installment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the municipality's net investment outstanding in respect of the leases or installment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

### 1.19 Tax

The municipality is exempted from tax in terms of section 10(1)(a) of the Income Tax Act.

### 1.20 Statutory receivables

#### 1.20.1 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.

The municipality has the following major categories under the ambit of statutory receivables:

- Rates debtors
- Traffic fine debtors
- Availability charges debtors:

#### 1.20.2 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.



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.20 Statutory receivables (continued)

#### 1.20.3 Measurement

The municipality initially measures statutory receivables at their transaction amount.

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.

#### 1.20.4 Impairment

Statutory receivables, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. Statutory receivables are impaired where there is objective evidence of impairment of Statutory receivables (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 108.

A provision for impairment of receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

According to GRAP 108, the assessment for impairment needs to be made for each individual financial asset separately or for groups of statutory receivables with similar credit risks. The following methodology was followed to make a provision for bad debts for the year under review:

##### **Assessment rate debtors and availability charges debtors**

Assessment rates debtors and availability charges debtors are assessed individually thereafter collectively, considering factors such as payment histories and ratios, qualitative factors e.g. correspondence from attorneys, disputes about certain accounts, etc.

##### **Traffic fine debtors**

Traffic fine debtors are reviewed collectively considering payment histories and disputes about certain amounts. Provision for impairment is made accordingly.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of financial performance.

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 through the Statement of financial performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

#### 1.20.5 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 control of the statutory receivable and substantially all the risks and rewards of ownership of the asset to another entity; 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.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.20 Statutory receivables (continued)

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.

### 1.21 Revenue

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

#### Recognition and measurement

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.21 Revenue (continued)

#### 1.21.1 Revenue from exchange transactions

##### Service charges

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

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

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

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

##### Pre-paid electricity

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards are recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

##### Interest earned and rentals received

Interest and rentals are recognised on a time proportion basis that takes into account the effective yield on the investment.

Interest is recognised using the effective interest rate method for financial instruments, and using the nominal interest rate method for statutory receivables. Interest levied on transactions arising from exchange or non-exchange transactions is classified based on the nature of the underlying transaction.

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

##### Dividends

Dividends are recognised on the date that the municipality becomes entitled to receive the dividend in accordance with the substance of the relevant agreement, where applicable.

##### 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 buyer 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.

##### Revenue recognition of unclaimed deposits

Unclaimed deposits older than three (3) years are recognised as revenue.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.21 Revenue (continued)

#### 1.21.2 Revenue from non-exchange transactions

##### Rates and taxes

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

##### Fines

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the municipality is entitled to collect.

Subsequent to initial recognition and measurement, the municipality assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

##### Other grants and donations

Donations shall be measured at the fair value of the consideration received or receivable when the amount of the revenue can be measured reliably.

##### Transfers and subsidies

##### Unconditional grants

Equitable share allocations are recognised in revenue at the start of the financial year.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. For example, equitable share grants per the Division of Revenue Act where the period of use of such funds is stated, should be recognised on a time proportion basis, i.e. over the stated period. Where there is no restriction on the period, such revenue should be recognised on receipt or when the Act becomes effective, which-ever is earlier.

In certain circumstances government will only remit grants on a re-imbursement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

An entity needs to assess the degree of certainty attached to the flow of future economic benefits of service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants should only be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue should only be recognised once evidence of the probability of the flow becomes available.

##### Conditional grants

Conditional grants recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. Where the agreement contains a stipulation to return the asset, other future economic benefits or service potential, in the event of non-compliance to these stipulations and would be enforced by the transferor, a liability is recognised to the extent that the criteria, conditions or obligations have not been met. Where such requirements are not enforceable, or where past experience has indicated that the transferor has never enforced the requirement to return the transferred asset, other future economic benefits or service potential when breaches have occurred, the stipulation will be considered a restriction and is recognised as revenue.

In certain circumstances government will only remit grants on a re-imbursement basis. Revenue should therefore be recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with and not when the grant is received.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.21 Revenue (continued)

Interest earned on grants received and invested is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of financial performance.

An entity needs to assess the degree of certainty attached to the flow of future economic benefits of service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants should only be recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue should only be recognised once evidence of the probability of the flow becomes available.

#### Interest earned on unspent grants and receipts

Interest earned on unspent grants and receipts is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of financial performance in accordance with GRAP 9.

#### Services received in-kind

Services in kind are recognised at its fair value when it is significant to the operations and/or service delivery objectives and 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. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

#### Revenue recognition of unclaimed deposits

Unclaimed deposits older than three (3) years are recognised as revenue.

### 1.22 Transfers and subsidies – non-exchange expenditure

The municipality transfers money to individuals, organisations and other sectors of government from time to time. These transfers are recognised in the annual financial statements as expenses in the period that the events giving rise to the transfer occurred.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.23 Related parties and related party transactions

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Management is regarded as a related party and comprises the councillors, Executive Mayor, Mayoral Committee members, Municipal Manager, executive directors and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

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 ventures).

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

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

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

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

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

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

### 1.24 Events after reporting date

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.

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.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.25 Principal-agent arrangements

The municipality is party to a principal-agent arrangement for prepaid electricity services. In terms of the arrangement the municipality is the principal .

#### Identification

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

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

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

#### Identifying whether an entity is a principal or an agent

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

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

#### Binding arrangement

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

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

#### Assessing which entity benefits from the transactions with third parties

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

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

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

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

#### Recognition

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

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

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

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.26 Value Added Tax

The municipality is registered with the South African Revenue Service (SARS) for Value Added Tax on the payments basis, in accordance with Section 15(2)(a) of the Value-Added Tax Act No 89 of 1991. The municipality account for VAT on a monthly basis.

The municipality is liable to account for VAT at the Standard rate (15%) in terms of section 7(1)(a) of the Value Added Tax Act, (Act 89 of 1991) in respect of the supply goods or services, except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The municipality account for VAT on a monthly basis.

### 1.27 Grants-in-aid

The municipality transfers money to individuals, organizations and other sectors of government from time to time. When making these transfers, the municipality does not:

- Receive any goods or services directly in return, as would be expected in a purchase or sale transaction;
- Expect to be repaid in future; or
- Expect a financial return, as would be expected from an investment.

These transfers are recognised in the annual financial statements as expenses in the period that the events giving rise to the transfer occurred.

### 1.28 Unauthorised expenditure

Section 1 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA), defines Unauthorised expenditure as follows:

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

Section 1 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) also defines a Vote as:

- One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

The municipality uses the Municipal Standard Chart of Accounts (mSCOA) Functions and Sub-functions, previously the Government Finance Statistics (GFS) functions, as well as departments as the main groupings of segments of the municipality's budget segments within the municipality are grouped per department to facilitate greater accountability and budget implementation by the respective Executive Directors as well as per mSCOA classification to facilitate comparisons on a higher level.

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. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.29 Irregular expenditure

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

Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of financial performance and where recovered, it is subsequently accounted for as revenue in the Statement of financial performance.

Irregular expenditure is defined in section 1 of the MFMA as follows:

"Irregular expenditure", in relation to a municipality or municipal entity, means:

- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of this Act, and which has not been condoned in terms of section 170;
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the Municipal Systems Act, and which has not been condoned in terms of that Act;
- expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Public Office-Bearers Act, 1998 (Act No. 20 of 1998); or
- expenditure incurred by a municipality or municipal entity in contravention of, or that is not in accordance with, a requirement of the supply chain management policy of the municipality or entity or any of the municipality's by-laws giving effect to such policy, and which has not been condoned in terms of such policy or by-law, but excludes expenditure by a municipality which falls within the definition of "unauthorised expenditure".

In this context 'expenditure' refers to any use of municipal funds that is in contravention of the following legislation:

- 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 that policy

Although a transaction or an event may trigger irregular expenditure, a municipality or municipal entity will only identify irregular expenditure when a payment is made, in other words, the recognition of irregular expenditure will be linked to a financial transaction. If the possibility of irregular expenditure is determined prior to a payment being made, the transgression shall be regarded as a matter of non-compliance.

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

### 1.30 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that 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. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

Fruitless and wasteful expenditure is accounted for in line with all relating requirements, including, but no limited to, ruling legislation, regulations, frameworks, circulars, instruction notes, practice notes and guidelines.

### 1.31 Change in accounting policies, estimates and errors

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

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.31 Change in accounting policies, estimates and errors (continued)

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Details of changes in accounting policies, changes in estimates and correction of errors are disclosed in the notes to the annual financial statements where applicable.

### 1.32 Contingent assets and contingent liabilities

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the municipality. Refer to note 43 and 44.

### 1.33 Commitments

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

Capital commitments are not recognised in the statement of financial position as a liability but are included in the disclosure notes in the following cases:

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements
- Other commitments for contracts are be non-cancelable or only cancelable at significant cost contracts should relate to something other than the business of the municipality.

### 1.34 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021	
<b>2. Cash and cash equivalents</b>			
<b>2.1 Cash and cash equivalents</b>			
Cash and cash equivalents consist of the following:			
<b>Call deposits and investments</b>			
Short-term deposits	75 001 591	43 510 365	
<b>Cash at bank</b>			
Bank balances	18 186 543	2 006 188	
Cash on hand	9 207	9 207	
<b>Total cash and cash equivalents</b>	<b>93 197 341</b>	<b>45 525 760</b>	
<b>2.2 Bank accounts - Cash book balances</b>			
The municipality has the following bank accounts:			
FNB Bank	Account - 620 480 92647	18 186 543	2 006 188
FNB Bank	Business Money Market - 621 517 83563	17 398	731 781
FNB Bank	NSTD Account - 620 490 46205	7 148	1 375 340
FNB Bank	Call Account - 623 105 40465	37 214	24 872 039
STD Bank	Notice Deposit - 48445851002	-	10 220 950
STD Bank	Notice Deposit - 48445851003	12 106 659	6 310 255
STD Bank	Notice Deposit - 48445851005	4 772 726	-
STD Bank	Notice Deposit - 48445851009	11 417 524	-
STD Bank	Notice Deposit - 48445851010	10 237 865	-
STD Bank	Notice Deposit - 48445851011	11 253 159	-
STD Bank	Notice Deposit - 48445851012	5 190 789	-
ABSA Bank	Deposit - 9370891524	19 961 109	-
<b>Total</b>		<b>93 188 134</b>	<b>45 516 553</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand 2022 2021

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### 2. Cash and cash equivalents (continued)

#### 2.3 Difference between cash book and bank statement

##### 2022

	Cash book	Bank statement	Difference
FNB Bank - Account 620 480 92647	18 186 543	17 959 931	226 612

The difference is due to cashier receipts captured before year end and only deposited after year end.

##### 2021

	Cash book	Bank statement	Difference
FNB Bank - Account 620 480 92647	2 006 188	1 741 934	264 254

The difference is due to cashier receipts captured before year end and only deposited after year end.

FNB Bank - NSTD Account - 620 490 46205	1 375 340	1 371 301	4 039
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The difference is due to interest accrued.

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<b>3 381 528</b>	<b>3 113 235</b>	<b>268 293</b>
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# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 2. Cash and cash equivalents (continued)

#### Cessions

A cession to the amount of R5 808 851 in favour of Setsoto Local Municipality is held in terms of the upgrading of the Van Soelen outfall sewer pipeline project. The cession is with ABSA bank and the account details are as follows:

#### ABSA Bank

Linomtha Planthire and Road Construction (Pty) Ltd - account 93 5340 6209	5 808 851	5 729 021
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#### Cash and cash equivalents pledged as collateral

No cash and cash equivalents were pledged as collateral for the current financial year.

### 3. Receivables from exchange transactions

#### Consumer receivables from exchange transactions

Electricity	33 292 162	35 070 534
Waste management	51 621 635	50 090 406
Waste water management	39 230 029	38 472 440
Water	77 609 505	74 331 704
	<b>201 753 331</b>	<b>197 965 084</b>

#### Other receivables from exchange transactions

Other debtors	6 157 110	5 090 565
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#### Total receivables from exchange transactions

	<b>207 910 441</b>	<b>203 055 649</b>
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The amount disclosed in this note is net of impairment.

Refer to note 3.1 & 3.2 for the amount before the provision (gross) and the actual value of the provision.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### 3.1 Consumer receivables

	2022			2021		
	Gross	Impairment	Total	Gross	Impairment	Total
<b>Consumer receivables from exchange transactions</b>						
Electricity	45 932 961	(12 640 799)	33 292 162	47 206 336	(12 135 802)	35 070 534
Waste management	119 463 916	(67 842 281)	51 621 635	117 417 078	(67 326 672)	50 090 406
Waste water management	87 311 349	(48 081 320)	39 230 029	86 321 368	(47 848 928)	38 472 440
Water	171 417 389	(93 807 884)	77 609 505	168 800 037	(94 468 333)	74 331 704
<b>Total consumer receivables from exchange transactions</b>	<b>424 125 615</b>	<b>(222 372 284)</b>	<b>201 753 331</b>	<b>419 744 819</b>	<b>(221 779 735)</b>	<b>197 965 084</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### 3.1.1 Ageing of consumer receivables

2022

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
<b>Consumer receivables from exchange transactions</b>						
<b>Total by debt type</b>						
Electricity	45 932 961	19 583 253	1 490 791	1 026 063	927 444	22 905 410
Waste management	119 463 916	8 342 540	3 965 497	3 503 123	3 950 426	99 702 330
Waste water management	87 311 349	6 474 780	2 949 476	2 597 323	2 931 743	72 358 027
Water	171 417 389	13 257 240	5 791 023	5 051 418	5 497 763	141 819 945
<b>Total by debt type</b>	<b>424 125 615</b>	<b>47 657 813</b>	<b>14 196 787</b>	<b>12 177 927</b>	<b>13 307 376</b>	<b>336 785 712</b>
<b>Aging per customer group</b>						
Organs of state	4 978 823	1 700 491	631 057	(931 430)	337 608	3 241 097
Consumers	380 304 090	39 353 285	12 475 712	12 241 359	12 229 430	304 004 304
Industrial/commercial	38 842 702	6 604 037	1 090 018	867 998	740 338	29 540 311
<b>Total by customer group</b>	<b>424 125 615</b>	<b>47 657 813</b>	<b>14 196 787</b>	<b>12 177 927</b>	<b>13 307 376</b>	<b>336 785 712</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

2021

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
<b>Consumer receivables from exchange transactions</b>						
<b>Total by debt type</b>						
Electricity	47 206 336	11 836 295	5 102 810	2 301 241	1 801 849	26 164 141
Waste management	117 417 078	54 204	4 181 396	3 538 307	3 428 538	106 214 633
Waste water management	86 321 368	5 628	2 851 294	2 699 647	2 611 651	78 153 148
Water	168 800 037	1 572 359	5 965 008	4 994 844	4 857 292	151 410 534
<b>Total by debt type</b>	<b>419 744 819</b>	<b>13 468 486</b>	<b>18 100 508</b>	<b>13 534 039</b>	<b>12 699 330</b>	<b>361 942 456</b>
<b>Aging per customer group</b>						
Organs of state	18 902 540	606 532	815 128	609 484	571 894	16 299 502
Consumers	350 903 259	11 259 545	15 131 878	11 314 346	10 616 537	302 580 953
Industrial/commercial	49 939 020	1 602 409	2 153 502	1 610 209	1 510 899	43 062 001
<b>Total by customer group</b>	<b>419 744 819</b>	<b>13 468 486</b>	<b>18 100 508</b>	<b>13 534 039</b>	<b>12 699 330</b>	<b>361 942 456</b>



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### 3.1.2 Impairment reconciliation of consumer receivables

	2022			2021		
	Opening balance	Impairment raised / reversed	Closing balance	Opening balance	Impairment raised / reversed	Closing balance
<b>Consumer receivables from exchange transactions</b>						
Electricity	12 135 802	504 997	12 640 799	9 407 000	2 728 802	12 135 802
Waste management	67 326 672	515 609	67 842 281	64 464 786	2 861 886	67 326 672
Waste water management	47 848 928	232 392	48 081 320	35 974 115	11 874 813	47 848 928
Water	94 468 333	(660 449)	93 807 884	49 989 660	44 478 673	94 468 333
<b>Total consumer receivables</b>	<b>221 779 735</b>	<b>592 549</b>	<b>222 372 284</b>	<b>159 835 561</b>	<b>61 944 174</b>	<b>221 779 735</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### 3.1.3 Ageing of impaired consumer receivables

2022

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
<b>Consumer receivables from exchange transactions</b>						
<b>Aging by debt type</b>						
Electricity	12 640 799	5 389 332	410 267	282 374	255 233	6 303 593
Waste management	67 842 281	4 737 640	2 251 963	1 989 386	2 243 405	56 619 887
Waste water management	48 081 320	3 565 584	1 624 242	1 430 315	1 614 476	39 846 703
Water	93 807 884	7 255 003	3 169 128	2 764 380	3 008 642	77 610 731
<b>Total by debt type</b>	<b>222 372 284</b>	<b>20 947 559</b>	<b>7 455 600</b>	<b>6 466 455</b>	<b>7 121 756</b>	<b>180 380 914</b>
<b>Aging per customer group</b>						
Organs of state	17 500	1 649	587	509	560	14 195
Consumers	205 040 340	19 314 882	6 874 502	5 962 452	6 566 678	166 321 826
Industrial/commercial	17 314 444	1 631 028	580 511	503 494	554 518	14 044 893
<b>Total by customer group</b>	<b>222 372 284</b>	<b>20 947 559</b>	<b>7 455 600</b>	<b>6 466 455</b>	<b>7 121 756</b>	<b>180 380 914</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

2021

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
<b>Consumer receivables from exchange transactions</b>						
<b>Aging by debt type</b>						
Electricity	12 135 802	3 042 874	1 311 830	591 603	463 219	6 726 276
Waste management	67 326 672	31 081	2 397 602	2 028 857	1 965 915	60 903 217
Waste water management	47 848 928	3 120	1 580 505	1 496 445	1 447 669	43 321 189
Water	94 468 333	879 965	3 338 295	2 795 346	2 718 366	84 736 361
<b>Total by debt type</b>	<b>221 779 735</b>	<b>3 957 040</b>	<b>8 628 232</b>	<b>6 912 251</b>	<b>6 595 169</b>	<b>195 687 043</b>
<b>Aging per customer group</b>						
Organs of state	1 691	30	66	53	50	1 492
Consumers	208 198 458	3 714 720	8 099 860	6 488 961	6 191 296	183 703 621
Industrial/commercial	13 579 586	242 290	528 306	423 237	403 823	11 981 930
<b>Total by customer group</b>	<b>221 779 735</b>	<b>3 957 040</b>	<b>8 628 232</b>	<b>6 912 251</b>	<b>6 595 169</b>	<b>195 687 043</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### 3.1.4 Consumer debt past due not impaired

##### 2022

	Total	30 days	60 days	90 days	120 days	120+ days
<b>Consumer receivables from exchange transactions</b>						
Electricity	33 292 162	14 193 921	1 080 524	743 689	672 210	16 601 818
Waste management	51 621 635	3 604 901	1 713 534	1 513 737	1 707 021	43 082 442
Waste water management	39 230 029	2 909 196	1 325 235	1 167 008	1 317 267	32 511 323
Water	77 609 505	6 002 238	2 621 895	2 287 038	2 489 121	64 209 213
<b>Total consumer receivables</b>	<b>201 753 331</b>	<b>26 710 256</b>	<b>6 741 188</b>	<b>5 711 472</b>	<b>6 185 619</b>	<b>156 404 796</b>

##### 2021

	Total	30 days	60 days	90 days	120 days	120+ days
<b>Consumer receivables from exchange transactions</b>						
Electricity	35 070 534	8 793 421	3 790 980	1 709 638	1 338 630	19 437 865
Waste management	50 090 406	23 124	1 783 793	1 509 450	1 462 622	45 311 417
Waste water management	38 472 440	2 508	1 270 789	1 203 201	1 163 983	34 831 959
Water	74 331 704	692 394	2 626 713	2 199 497	2 138 926	66 674 174
<b>Total consumer receivables</b>	<b>197 965 084</b>	<b>9 511 447</b>	<b>9 472 275</b>	<b>6 621 786</b>	<b>6 104 161</b>	<b>166 255 415</b>

#### 3.1.5 Consumer receivables pledged as security

No consumer receivables were pledged as security.

#### 3.1.6 Fair value of consumer receivables

In determining the recoverability of receivables from exchange transactions, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of receivables from exchange transactions has been made for all balances outstanding based on the payment ratio over a 12 month period per service type. No further credit provision is required in excess of the provision for impairment.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### 3.2 Other receivables from exchange transactions

	2022			2021		
	Gross	Impairment	Total	Gross	Impairment	Total
Other debtors	9 957 839	(3 800 729)	6 157 110	7 576 146	(2 485 581)	5 090 565

#### 3.2.1 Ageing of other receivables from exchange transactions

##### 2022

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
Other debtors	9 957 839	551 122	170 729	268 365	98 262	8 869 361

##### 2021

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
Other debtors	7 576 146	18 861	120 917	75 405	105 048	7 255 915

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### 3.2.2 Impairment reconciliation of other receivables from exchange transactions

	2022			2021		
	Opening balance	Impairment raised / reversed	Closing balance	Opening balance	Impairment raised / reversed	Closing balance
Other debtors	2 485 581	1 315 148	3 800 729	2 692 422	(206 841)	2 485 581

#### 3.2.3 Ageing of other impaired receivables from exchange transactions

##### 2022

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
Other debtors	3 800 729	210 353	65 164	102 430	37 505	3 385 277

##### 2021

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
Other debtors	2 485 581	6 188	39 670	24 739	34 464	2 380 520

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### 3.2.4 Other receivables from exchange transactions past due not impaired

2022

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
Other debtors	6 157 110	340 768	105 565	165 935	60 757	5 484 085

2021

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
Other debtors	5 090 565	12 673	81 246	50 666	70 584	4 875 396

#### 3.2.5 Other receivables from exchange transactions pledged as security

No other receivables from exchange transactions were pledged as security.

#### 3.2.6 Fair value of other receivables from exchange transactions

In determining the recoverability of other receivables from exchange transactions, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of other receivables from exchange transactions has been made for all balances outstanding based on the payment ratio over a 12 month period per service type. No further credit provision is required in excess of the provision for impairment.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand		2022	2021
<b>4. Receivables from non-exchange transactions</b>			
<b>Consumer receivables</b>	4.1		
Property rates		52 647 566	42 817 266
Electricity		247 910	183 513
Waste water management		527 041	477 755
Water		917 913	815 708
		<b>54 340 430</b>	<b>44 294 242</b>
<b>Other receivables</b>			
Accrued income		2 100 000	1 400 000
Fines		276 087	227 071
		<b>2 376 087</b>	<b>1 627 071</b>
<b>Total receivables</b>		<b>56 716 517</b>	<b>45 921 313</b>

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

### 4.1 Receivables from non-exchange transactions

	2022			2021		
	Gross	Impairment	Total	Gross	Impairment	Total
<b>Consumer receivables</b>						
Property rates	77 774 516	(25 126 950)	52 647 566	69 878 780	(27 061 514)	42 817 266
Electricity	566 750	(318 840)	247 910	416 546	(233 033)	183 513
Waste water management	1 027 421	(500 380)	527 041	930 358	(452 603)	477 755
Water	1 843 409	(925 496)	917 913	1 634 770	(819 062)	815 708
	<b>81 212 096</b>	<b>(26 871 666)</b>	<b>54 340 430</b>	<b>72 860 454</b>	<b>(28 566 212)</b>	<b>44 294 242</b>
<b>Other receivables</b>						
Accrued income	2 100 000	-	2 100 000	1 400 000	-	1 400 000
Fines	1 358 709	(1 082 622)	276 087	931 239	(704 168)	227 071
	<b>3 458 709</b>	<b>(1 082 622)</b>	<b>2 376 087</b>	<b>2 331 239</b>	<b>(704 168)</b>	<b>1 627 071</b>
<b>Total</b>	<b>84 670 805</b>	<b>(27 954 288)</b>	<b>56 716 517</b>	<b>75 191 693</b>	<b>(29 270 380)</b>	<b>45 921 313</b>



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### 4.1.1 Ageing of receivables from non-exchange transactions

2022

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
<b>Consumer receivables</b>						
Property rates	77 774 516	6 785 786	2 350 853	1 938 764	2 011 428	64 687 685
Electricity	566 750	52 709	20 795	20 100	19 746	453 400
Waste water management	1 027 421	76 011	31 036	30 497	29 907	859 970
Water	1 843 409	128 796	55 472	56 169	56 770	1 546 202
	<b>81 212 096</b>	<b>7 043 302</b>	<b>2 458 156</b>	<b>2 045 530</b>	<b>2 117 851</b>	<b>67 547 257</b>
<b>Other receivables</b>						
Accrued income	2 100 000	-	-	-	-	2 100 000
Fines	1 358 709	-	-	-	-	1 358 709
	<b>3 458 709</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>3 458 709</b>
	<b>84 670 805</b>	<b>7 043 302</b>	<b>2 458 156</b>	<b>2 045 530</b>	<b>2 117 851</b>	<b>71 005 966</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

2021

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
<b>Consumer receivables</b>						
Property rates	69 878 780	96 992	4 046 273	3 048 023	2 822 476	59 865 016
Electricity	416 546	19 640	17 103	16 195	16 122	347 486
Waste water management	930 358	37 391	30 493	28 984	28 236	805 254
Water	1 634 770	59 127	52 081	50 637	49 011	1 423 914
	<b>72 860 454</b>	<b>213 150</b>	<b>4 145 950</b>	<b>3 143 839</b>	<b>2 915 845</b>	<b>62 441 670</b>
<b>Other receivables</b>						
Accrued income	1 400 000	-	-	-	-	1 400 000
Fines	931 239	-	-	-	-	931 239
	<b>2 331 239</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2 331 239</b>
	<b>75 191 693</b>	<b>213 150</b>	<b>4 145 950</b>	<b>3 143 839</b>	<b>2 915 845</b>	<b>64 772 909</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### 4.1.2 Impairment reconciliation of receivables from non-exchange transactions

	2022			2021		
	Opening balance	Impairment raised / reversed	Closing balance	Opening balance	Impairment raised / reversed	Closing balance
<b>Consumer receivables</b>						
Property rates	27 061 514	(1 934 564)	25 126 950	21 809 770	5 251 744	27 061 514
Electricity	233 033	85 807	318 840	141 387	91 646	233 033
Waste water management	452 603	47 777	500 380	379 989	72 614	452 603
Water	819 062	106 434	925 496	688 583	130 479	819 062
	<b>28 566 212</b>	<b>(1 694 546)</b>	<b>26 871 666</b>	<b>23 019 729</b>	<b>5 546 483</b>	<b>28 566 212</b>
<b>Other receivables</b>						
Fines	704 168	378 454	1 082 622	193 816	510 352	704 168
<b>Total</b>	<b>29 270 380</b>	<b>(1 316 092)</b>	<b>27 954 288</b>	<b>23 213 545</b>	<b>6 056 835</b>	<b>29 270 380</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### 4.1.3 Ageing of impaired receivables from non-exchange transactions

2022

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
<b>Consumer receivables</b>						
Property rates	25 126 950	2 192 313	759 500	626 365	649 841	20 898 931
Electricity	318 840	29 653	11 699	11 308	11 109	255 071
Waste water management	500 380	37 019	15 115	14 853	14 565	418 828
Water	925 496	64 663	27 850	28 199	28 502	776 282
	<b>26 871 666</b>	<b>2 323 648</b>	<b>814 164</b>	<b>680 725</b>	<b>704 017</b>	<b>22 349 112</b>
<b>Other receivables</b>						
Fines	1 082 622	-	-	-	-	1 082 622
	<b>27 954 288</b>	<b>2 323 648</b>	<b>814 164</b>	<b>680 725</b>	<b>704 017</b>	<b>23 431 734</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

2021

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
<b>Consumer receivables</b>						
Property rates	27 061 514	37 561	1 566 975	1 180 388	1 093 043	23 183 547
Electricity	233 033	10 988	9 568	9 060	9 019	194 398
Waste water management	452 603	18 190	14 834	14 100	13 736	391 743
Water	819 062	29 624	26 094	25 370	24 556	713 418
	<b>28 566 212</b>	<b>96 363</b>	<b>1 617 471</b>	<b>1 228 918</b>	<b>1 140 354</b>	<b>24 483 106</b>
<b>Other receivables</b>						
Fines	704 168	-	-	-	-	704 168
	<b>29 270 380</b>	<b>96 363</b>	<b>1 617 471</b>	<b>1 228 918</b>	<b>1 140 354</b>	<b>25 187 274</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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### 4. Receivables from non-exchange transactions (continued)

#### Property rates

Property rates receivables are statutory receivables and arise from property taxes levied on property owners based on the valuation of properties per the valuation roll in accordance with the Municipal Property Rates Act, No 6 of 2004 and Setsoto Local Municipality's Property Rates Policy. A general valuation is performed every four years, with supplementary valuations in between.

The average credit period for property rates receivables is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate +1% per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of property rates receivables.

The management of the municipality is of the opinion that the carrying value of property rates receivables approximate their fair values.

The impairment provision was calculated after individually assessing property rates receivables and by estimating the probability of future payment ratios, using a formula-based approach by considering the historical payment ratios and other characteristics found per groups of property rates debtors.

In determining the recoverability of a receivable, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Allowance for Doubtful Debts.

#### Availability charges on water, electricity and waste water management

Availability charges on water, electricity and waste water management receivables are statutory receivables and arise from basic charges levied on vacant properties in accordance with the relevant bylaws of the Setsoto Local Municipality.

The average credit period for availability charges on water, electricity and waste water management is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate +1% per annum on the outstanding balance. The municipality strictly enforces its approved credit policy to ensure the recovery of availability charges on water, electricity and waste water management receivables.

The management of the municipality is of the opinion that the carrying value of availability charges on water, electricity and waste water management receivables approximate their fair values.

The impairment provision was calculated after individually assessing availability charges on water, electricity and waste water management receivables and by estimating the probability of future payment ratios, using a formula-based approach by considering the historical payment ratios and other characteristics found per groups of availability charges on water, electricity and waste water management debtors.

In determining the recoverability of a receivable, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Allowance for Doubtful Debts.

#### Traffic fines

Traffic fines receivables are statutory receivables and arise from traffic infringements committed and fines issued as a result, in terms of the Criminal Procedure Act, No 501 of 1977.

The Traffic fines must be issued within 30 days of offence, after which it is payable. No interest is charged.

The management of the municipality is of the opinion that the carrying value of Traffic fines receivables approximate their fair values.

The impairment provision was calculated after collectively assessing Traffic fines receivables and by calculating the historical payment ratios and assuming that future payment ratios would be similar to the historical payment ratios.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 4. Receivables from non-exchange transactions (continued)

The provision for doubtful debts on traffic fines receivables exist predominantly due to the possibility that these debts will not be recovered were assessed individually for impairment.

In determining the recoverability of a receivable, the municipality considers any change in the credit quality of the receivable from the date credit was initially granted up to the reporting date. The concentration of credit risk is limited due to the customer base being large and unrelated. Accordingly, the management believe that there is no further credit provision required in excess of the Allowance for Doubtful Debts.

#### Other receivables

The average credit period for Government Grants and Subsidies is dependent on the Government Department involved and the nature of the claim. No interest is charged on outstanding Government Grants and Subsidies. The subsidies is payable to the municipality due to allocations made in the DORA or based on agreements between the municipality and the relevant departments.

The claims instituted against the municipality's insurance company are supported by valid insurance claims which are claimable in terms of the insurance contract entered into by the municipality. The average waiting period depends on the nature of the claim. No interest is charged on outstanding insurance claims.

The average credit period for other receivables is 30 days. No interest is charged for the first 30 days from the date of the invoice. Thereafter interest is charged at the prime rate +1% per annum on the outstanding balance. The municipality strictly enforces its approved credit control policy to ensure the recovery of other receivables.

The management of the municipality is of the opinion that the carrying value of other receivables approximate their fair values.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### 4.1.4 Ageing of impaired receivables from non-exchange transactions past due not impaired

2022

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
<b>Consumer receivables</b>						
Property rates	52 647 566	4 593 473	1 591 353	1 312 399	1 361 587	43 788 754
Electricity	247 910	23 056	9 096	8 792	8 637	198 329
Waste water management	527 041	38 992	15 920	15 644	15 341	441 144
Water	917 913	64 133	27 622	27 969	28 268	769 921
	<b>54 340 430</b>	<b>4 719 654</b>	<b>1 643 991</b>	<b>1 364 804</b>	<b>1 413 833</b>	<b>45 198 148</b>
<b>Other receivables</b>						
Accrued income	2 100 000	-	-	-	-	2 100 000
Fines	276 087	-	-	-	-	276 087
	<b>2 376 087</b>	-	-	-	-	<b>2 376 087</b>
	<b>56 716 517</b>	<b>4 719 654</b>	<b>1 643 991</b>	<b>1 364 804</b>	<b>1 413 833</b>	<b>47 574 235</b>



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

2021

	Past due					
	Total	30 days	60 days	90 days	120 days	120+ days
<b>Consumer receivables</b>						
Property rates	42 817 266	59 431	2 479 298	1 867 634	1 729 434	36 681 469
Electricity	183 513	8 653	7 535	7 135	7 103	153 087
Waste water management	477 755	19 201	15 659	14 884	14 499	413 512
Water	815 708	29 503	25 987	25 267	24 455	710 496
	<b>44 294 242</b>	<b>116 788</b>	<b>2 528 479</b>	<b>1 914 920</b>	<b>1 775 491</b>	<b>37 958 564</b>
<b>Other receivables</b>						
Accrued income	1 400 000	-	-	-	-	1 400 000
Fines	227 071	-	-	-	-	227 071
	<b>1 627 071</b>	-	-	-	-	<b>1 627 071</b>
	<b>45 921 313</b>	<b>116 788</b>	<b>2 528 479</b>	<b>1 914 920</b>	<b>1 775 491</b>	<b>39 585 635</b>

#### 4.1.5 Receivables from non-exchange transactions pledged as security

No receivables from non-exchange transactions were pledged as security.

#### 4.1.6 Fair value of receivables from non-exchange transactions

In determining the recoverability of receivables from non-exchange transactions, the municipality has placed strong emphasis on verifying the indigent status of consumers. Provision for impairment of receivables from non-exchange transactions has been made for all balances outstanding based on the payment ratio over a 12 month period per service type. No further credit provision is required in excess of the provision for impairment.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand		2022	2021
<b>5. Inventories</b>			
Consumables		2 500 645	2 586 096
Water for distribution	5.1	112 622	204 135
<b>Total Inventories</b>		<b>2 613 267</b>	<b>2 790 231</b>

R 2 613 267 (2021: R 2 790 231) of total inventory was carried at fair value less cost to sell.

### 5.1 Water

Opening balance		204 135	123 906
System input volume		(91 513)	80 229
<b>Closing balance</b>		<b>112 622</b>	<b>204 135</b>

### 5.2 Inventory pledged as security

No inventory was pledged as security during the current financial year.

### 6. VAT receivable

Output VAT		(110 283 352)	(98 209 562)
VAT Credit: Output Accrual		42 889 939	20 765 278
VAT receivable /(payable) (control)		2 440 853	7 415 809
VAT receivable		113 929 056	101 189 073
<b>Total</b>		<b>48 976 496</b>	<b>31 160 598</b>

The Municipality is registered on the payment basis, VAT is paid over to the South African Revenue Services (SARS) only once payment is received from debtors.

### 7. Other current assets

Deposits (Infrastructure project, Fuel and Eskom)		9 024 041	8 932 042
Cashiers short banking		333 928	338 657
Sundry debtors		189 000	189 000
<b>Total</b>		<b>9 546 969</b>	<b>9 459 699</b>

#### Deposits consist of:

Infrastructure project		5 729 021	5 729 021
Fuel deposits		250 000	250 000
Eskom deposit		3 045 020	2 953 021
		<b>9 024 041</b>	<b>8 932 042</b>

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

# Setso Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021	
<b>8. Other financial assets</b>			
<b>8.1 Carrying value of investments</b>			
<b>2022</b>			
	Fair value	Amortised cost	Total
<b>Carrying value as at 30 June 2022</b>			
Guaranteed endowment policies (sinking)	-	766 730	766 730
Listed/unlisted bonds and stocks	2 217 931	-	2 217 931
Negotiable certificate of deposits: Banks	-	688 621	688 621
<b>Net investment</b>	<b>2 217 931</b>	<b>1 455 351</b>	<b>3 673 282</b>
<b>2021</b>			
	Fair value	Amortised cost	Total
<b>Carrying value as at 30 June 2021</b>			
Guaranteed endowment policies (sinking)	-	728 703	728 703
Listed/unlisted bonds and stocks	2 182 139	-	2 182 139
Negotiable certificate of deposits: Banks	-	704 665	704 665
<b>Net investment</b>	<b>2 182 139</b>	<b>1 433 368</b>	<b>3 615 507</b>
<b>Fair value hierarchy of financial assets at fair value</b>			
For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy has the following levels:			
Level 1 - Represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.			
Level 2 - Applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).			
Level 3 - Applies inputs which are not based on observable market data.			
<b>Level 1</b>			
Sanlam		761 911	884 403
As at 30 June 2022, the Sanlam share value was: R52.87 (2021: R61.37).			
<b>Level 3</b>			
OVK		1 456 020	1 297 736
<b>Total listed/unlisted bonds and stocks</b>		<b>2 217 931</b>	<b>2 182 139</b>
As at 30 June 2022 the OVK share value was as follows:			
OVK holdings: R16.20 (2021: R14.00)			
OVK operations: R18.00 (2021: R16.50)			
<b>Financial assets at amortised cost</b>			
<b>Class 1</b>			
ABSA negotiable certificate of deposit		-	37 500
Sanlam negotiable certificate of deposit		688 621	667 165
Sanlam endowment policies		766 730	728 703
		<b>1 455 351</b>	<b>1 433 368</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>9. Investment property</b>		
<b>9.1 Reconciliation of carrying value</b>		
<b>Opening carrying value</b>		
Cost	126 153 602	130 440 603
Accumulated depreciation and impairment losses	(36 473 266)	(27 572 106)
	<b>89 680 336</b>	<b>102 868 497</b>
Depreciation	34 (10 535 979)	(8 898 913)
<b>Carrying value of disposals / transfers</b>		
Cost	(17 072 171)	(4 287 001)
Accumulated depreciation and impairment losses	11 884 649	-
	<b>(5 187 522)</b>	<b>(4 287 001)</b>
Impairment loss / reversal of impairment loss	35 (107 824)	(2 247)
<b>Closing carrying value</b>	<b>73 849 011</b>	<b>89 680 336</b>
<b>Summary</b>		
Cost	109 081 431	126 153 602
Accumulated depreciation and impairment losses	(35 232 420)	(36 473 266)
	<b>73 849 011</b>	<b>89 680 336</b>

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

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 10. Property, plant and equipment

#### 10.1 Reconciliation of carrying value

2022

	Land	Infrastructure assets	Buildings and Other Community assets	Leased assets	Transport assets	Other assets	Total
<b>Opening carrying value at 01 July 2021</b>							
Cost	52 200 480	4 605 467 856	423 494 864	30 133 886	24 546 558	18 076 460	5 153 920 104
Construction work-in-progress	-	326 956 938	-	-	-	-	326 956 938
Accumulated depreciation	-	(2 598 414 004)	(155 339 884)	(22 281 475)	(15 459 878)	(14 652 555)	(2 806 147 796)
Accumulated impairment losses	-	(25 214 067)	(23 410 889)	-	-	-	(48 624 956)
	<b>52 200 480</b>	<b>2 308 796 723</b>	<b>244 744 091</b>	<b>7 852 411</b>	<b>9 086 680</b>	<b>3 423 905</b>	<b>2 626 104 290</b>
Additions from acquisitions	-	197 404 302	45 652	-	-	846 529	198 296 483
Transfers from construction work-in-progress	-	(197 237 903)	-	-	-	-	(197 237 903)
Decommissioning and restoration	-	172 690	-	-	-	-	172 690
Capitalised costs (including WIP)	-	120 027 543	-	-	-	-	120 027 543
Depreciation	34	(219 914 869)	(25 220 678)	(1 587 118)	(1 089 029)	(1 162 472)	(248 974 166)
	-	<b>(99 548 237)</b>	<b>(25 175 026)</b>	<b>(1 587 118)</b>	<b>(1 089 029)</b>	<b>(315 943)</b>	<b>(127 715 353)</b>
<b>Carrying value of disposals</b>							
Cost - disposals	-	(1 733 981)	(8 464 791)	-	(178 255)	(920 519)	(11 297 546)
Accumulated depreciation - disposals	-	1 208 669	5 368 018	-	162 051	846 041	7 584 779
Impairment losses - disposals/transfers	-	-	1 011 752	-	-	-	1 011 752
	-	<b>(525 312)</b>	<b>(2 085 021)</b>	-	<b>(16 204)</b>	<b>(74 478)</b>	<b>(2 701 015)</b>
Impairment loss / reversal of impairment loss	35	(24 735 642)	(2 243 623)	-	(276 874)	-	(27 256 139)
<b>Closing carrying value as at 30 June 2022</b>	<b>52 200 480</b>	<b>2 183 987 532</b>	<b>215 240 421</b>	<b>6 265 293</b>	<b>7 704 573</b>	<b>3 033 484</b>	<b>2 468 431 783</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Summary

Cost	52 200 480	4 801 310 867	415 075 725	30 133 886	24 368 303	18 002 470	5 341 091 731
Cost - construction work-in-progress	-	249 746 578	-	-	-	-	249 746 578
Accumulated depreciation	-	(2 817 120 204)	(175 192 544)	(23 868 593)	(16 386 856)	(14 968 986)	(3 047 537 183)
Accumulated impairment losses	-	(49 949 709)	(24 642 760)	-	(276 874)	-	(74 869 343)
	<b>52 200 480</b>	<b>2 183 987 532</b>	<b>215 240 421</b>	<b>6 265 293</b>	<b>7 704 573</b>	<b>3 033 484</b>	<b>2 468 431 783</b>

The remaining useful lives of all assets were adjusted during 2022, and was treated as a change in accounting estimate (refer to note 47). All changes in accounting estimates are applied prospectively, accordingly no prior year adjustments were made.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

2021

	Land	Infrastructure assets	Buildings and Other Community assets	Leased assets	Transport assets	Other assets	Total
<b>Opening carrying value at 01 July 2020</b>							
Cost	58 095 196	4 538 790 492	398 822 152	30 133 886	20 239 024	18 533 903	5 064 614 653
Construction work-in-progress	-	238 519 670	14 298 175	-	-	-	252 817 845
Accumulated depreciation	(14 448)	(2 272 629 108)	(125 040 757)	(6 693 461)	(10 672 517)	(13 283 707)	(2 428 333 998)
Accumulated impairment losses	-	(9 610 433)	(22 041 363)	-	-	-	(31 651 796)
	<b>58 080 748</b>	<b>2 495 070 621</b>	<b>266 038 207</b>	<b>23 440 425</b>	<b>9 566 507</b>	<b>5 250 196</b>	<b>2 857 446 704</b>
Additions from acquisitions	-	60 624 208	24 677 487	-	4 858 294	1 533 912	91 693 901
Transfers from construction work-in-progress	-	(60 624 208)	(16 601 100)	-	-	-	(77 225 308)
Decommissioning and restoration	-	13 756 632	-	-	-	-	13 756 632
Capitalised costs (including WIP)	-	149 061 483	2 302 925	-	-	-	151 364 408
Depreciation	34	(330 583 345)	(30 301 731)	(15 588 014)	(5 290 288)	(3 319 723)	(385 083 101)
	-	<b>(167 765 230)</b>	<b>(19 922 419)</b>	<b>(15 588 014)</b>	<b>(431 994)</b>	<b>(1 785 811)</b>	<b>(205 493 468)</b>
<b>Carrying value of disposals</b>							
Cost - disposals	(5 894 716)	(7 703 480)	(4 776)	-	(550 760)	(1 991 355)	(16 145 087)
Accumulated depreciation - disposals	14 448	4 798 447	2 605	-	502 927	1 950 875	7 269 302
	<b>(5 880 268)</b>	<b>(2 905 033)</b>	<b>(2 171)</b>	-	<b>(47 833)</b>	<b>(40 480)</b>	<b>(8 875 785)</b>
Impairment loss / reversal of impairment loss	35	(15 603 634)	(1 369 526)	-	-	-	(16 973 160)
<b>Closing carrying value as at 30 June 2021</b>	<b>52 200 480</b>	<b>2 308 796 724</b>	<b>244 744 091</b>	<b>7 852 411</b>	<b>9 086 680</b>	<b>3 423 905</b>	<b>2 626 104 291</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### Summary

Cost	52 200 480	4 605 467 857	423 494 864	30 133 886	24 546 558	18 076 460	5 153 920 105
Cost - construction work-in-progress	-	326 956 938	-	-	-	-	326 956 938
Accumulated depreciation	-	(2 598 414 004)	(155 339 884)	(22 281 475)	(15 459 878)	(14 652 555)	(2 806 147 796)
Accumulated impairment losses	-	(25 214 067)	(23 410 889)	-	-	-	(48 624 956)
	<b>52 200 480</b>	<b>2 308 796 724</b>	<b>244 744 091</b>	<b>7 852 411</b>	<b>9 086 680</b>	<b>3 423 905</b>	<b>2 626 104 291</b>

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

#### 10.2 Change in estimate

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

A review of the useful lives and residual values of items of property, plant and equipment has been performed. The change in the estimated useful lives and residual values of property, plant and equipment of the municipality has resulted in a decrease in depreciation of R (134 492 398) (2021 Increase: R 292 960 195). Please refer to note 47.



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>10. Property, plant and equipment (continued)</b>		
<b>10.3 Property, plant and equipment under construction</b>		
<b>Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected</b>		
Ficksburg / Meqheleng Rehabilitation of 1.5km Surfaced Roads and Storm water Drainage Due to poor performance, as well as failure to implement the scope and management of cashflow by the contractor, the municipality after engaging with the contractor concluded on the termination of the contract. The municipality will use the retention funds on the project to complete the scope.	6 550 846	6 550 846
Upgrading of the Van Soelen Outfall sewer pipeline and related works in Meqheleng (Phase 2) The project is running behind schedule due to the dispute lodged by the contractor which necessitated the municipality to embark on a mediation process in terms of the GCC.	18 418 696	18 418 696
Construction of new water reticulation of 1110 sites in Marquard / Moemaneng Contract was terminated with the appointed contractor due to poor performance. This project was completed in the 2021/2022 financial year.	-	15 118 020
Construction of new sewer reticulation of 1110 sites in Marquard / Moemaneng Contract was terminated with the appointed contractor due to poor performance. This project was completed in the 2021/2022 financial year.	-	17 422 859
Installation of the prepaid electrical meters The project has been delayed due to inaccessible households and the shortage of electrical meters to be installed. The project was brought back on track during the 2021/2022 financial year and is almost completed.	60 727 435	49 021 150
The conversion of 969 VIP toilets in Meqheleng / Ficksburg The project was delayed due to COVID 19 regulations and also by the instruction of the court on the then pending dispute. The project was completed during the 2021/2022 financial year.	-	24 937 777
Electrification of 205 erven (Skeleton park) and 60 erven (Tienie van Rooyen, Clocolan) Phase 1 of the project was delayed due to COVID 19 regulations.	4 485 668	4 485 668
Construction of 500mm diameter pipeline from Cyferfontein to WTW (Senekal) The project suffered delays due to the late delivery of the materials as a result of the COVID backlog from the suppliers.	60 299 010	42 726 703
	<b>150 481 655</b>	<b>178 681 719</b>

\*The project, Construction of 500mm diameter pipeline from Cyferfontein to WTW (Senekal), was not disclosed in the 2020/2021 annual financial statements.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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

#### 10.4 Property, plant and equipment pledged as security

##### 2022

	Transport assets	Total
Carrying value of property, plant and equipment as security	6 265 293	6 265 293

Transport assets purchased on instalment agreement and financed through ABSA and FNB.

##### 2021

	Transport assets	Total
Carrying value of property, plant and equipment as security	7 852 411	7 852 411

Transport assets purchased on instalment agreement and financed through ABSA and FNB.

#### 10.5 Maintenance of property, plant and equipment

##### 2022

The following maintenance costs were incurred:

	Community assets	Other assets	Total
Maintenance	828 074	8 139 408	8 967 482

##### 2021

The following maintenance costs were incurred:

	Community assets	Other assets	Total
Maintenance	687 676	9 434 168	10 121 844

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021	
<b>11. Heritage assets</b>			
<b>11.1 Reconciliation of carrying value</b>			
<b>2022</b>			
	Historical buildings	Municipal jewellery	Total
<b>Opening carrying value as at 01 July 2021</b>			
Cost	14 506 753	879 150	15 385 903
<b>Summary</b>			
Cost	14 506 753	879 150	15 385 903
<b>2021</b>			
	Historical buildings	Municipal jewellery	Total
<b>Opening carrying value as at 01 July 2020</b>			
Cost	14 506 753	879 150	15 385 903
<b>Summary</b>			
Cost	14 506 753	879 150	15 385 903

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>12. Intangible assets</b>		
<b>12.1 Reconciliation of carrying value</b>		
<b>2022</b>		
	Computer software	Total
<b>Opening carrying value as at 01 July 2021</b>		
Cost	4 247 016	4 247 016
Accumulated depreciation and impairment	(3 701 763)	(3 701 763)
	<b>545 253</b>	<b>545 253</b>
Amortisation	34 (372 124)	(372 124)
<b>Closing carrying value as at 30 June 2022</b>	<b>173 129</b>	<b>173 129</b>
<b>Summary</b>		
Cost	4 247 016	4 247 016
Accumulated amortisation and impairment	(4 073 887)	(4 073 887)
	<b>173 129</b>	<b>173 129</b>
<b>2021</b>		
	Computer software	Total
<b>Opening carrying value as at 01 July 2020</b>		
Cost	4 585 471	4 585 471
Accumulated depreciation and impairment	(3 278 435)	(3 278 435)
	<b>1 307 036</b>	<b>1 307 036</b>
Amortisation	34 (761 783)	(761 783)
<b>Carrying value of disposals / transfers</b>		
Cost	(338 454)	(338 454)
Accumulated depreciation and impairment	338 454	338 454
	-	-
<b>Closing carrying value as at 30 June 2021</b>	<b>545 253</b>	<b>545 253</b>
<b>Summary</b>		
Cost	4 247 016	4 247 016
Accumulated amortisation and impairment	(3 701 763)	(3 701 763)
	<b>545 253</b>	<b>545 253</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>13. Financial liabilities</b>		
<b>Total financial liabilities</b>		
Annuity loans	1 999 335	2 657 156
<b>Less: Current portion transferred to current liabilities</b>		
Annuity loans	(734 232)	(657 821)
<b>Non-current financial liabilities</b>	<b>1 265 103</b>	<b>1 999 335</b>

### 13.1 Summary of arrangements

Refer to Appendix 'A' for more detail on financial liabilities.

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

### 14. Finance leases

#### 14.1 Carrying value of lease liabilities

##### 2022

	Amortised cost	Total
Transferred to current liabilities	1 627 032	1 627 032

##### 2021

	Amortised cost	Total
<b>Carrying value as at 30 June 2021</b>		
Finance lease liability - Non-current	1 627 034	1 627 034
Transferred to current liabilities	8 387 312	8 387 312
<b>Total</b>	<b>10 014 346</b>	<b>10 014 346</b>

Refer to Appendix 'A' for more detail on finance leases.

It is the municipality's policy to lease certain vehicles, computers, equipment and photo copy machines under finance leases.

The average lease term was 3-5 years and the average effective borrowing rate was 11% (2021: 11%).

Interest rates are linked to prime at the contract date. All leases have fixed repayments and no arrangements have been entered into for contingent rent.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer to note 10.

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>14. Finance leases (continued)</b>		
<b>14.2 Finance lease payable</b>		
<b>The municipality as lessee</b>		
The obligations under finance leases are as follow:		
<b>Total future minimum lease payments</b>		
Within 1 year	1 661 710	9 107 194
2 to 5 years	-	1 661 711
<b>Total minimum lease payments</b>	<b>1 661 710</b>	<b>10 768 905</b>
Less: Unearned finance revenue	(34 678)	(754 559)
	<b>1 627 032</b>	<b>10 014 346</b>
<b>Present value of minimum lease payments</b>		
Within 1 year	1 627 032	8 387 312
2 to 5 years	-	1 627 034
	<b>1 627 032</b>	<b>10 014 346</b>
<b>15. Consumer deposits</b>		
Electricity	2 780 186	2 788 792
Rental properties	275 467	271 968
Water	149 671	133 269
<b>Total</b>	<b>3 205 324</b>	<b>3 194 029</b>

Deposits are released on termination of the contract or when the contractual services are delivered.

# Setsotho Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>16. Payables from exchange transactions</b>		
Bulk purchases	16.1 28 779 050	26 641 637
Contractors	16.2 17 408 966	17 173 121
Control and clearing accounts	16.3 10 545 898	9 654 646
Employee benefits	16.4 25 165 629	24 235 912
Other payables	16.5 37 875 172	39 136 362
Statutory payables	16.6 3 613 706	3 199 170
<b>Total</b>	<b>123 388 421</b>	<b>120 040 848</b>
<b>16.1 Bulk purchases</b>		
Bulk electricity	28 779 050	26 641 637
<b>16.2 Contractors</b>		
Retentions	17 408 966	17 173 121
<b>16.3 Control and clearing accounts</b>		
Medical aid control	2 316 807	2 242 248
Pension control	2 706 625	2 656 197
Prepaid electricity	2 511 147	2 229 214
Salary Control	2 799 586	2 315 279
UIF control	211 733	211 708
<b>Total</b>	<b>10 545 898</b>	<b>9 654 646</b>
<b>16.4 Employee benefits</b>		
Bonus - 13th Cheque	4 761 075	4 744 812
Leave accrual	20 404 554	19 491 100
<b>Total</b>	<b>25 165 629</b>	<b>24 235 912</b>
<b>16.5 Other payables</b>		
Auditor-General of South Africa	3 472 760	4 209 418
Payables and accruals	19 187 229	22 436 401
Unallocated deposits	4 417 126	3 598 609
Payments received in advance - consumer debtors	10 798 057	8 891 934
<b>Total</b>	<b>37 875 172</b>	<b>39 136 362</b>
<b>16.6 Statutory payables</b>		
Compensation commission (COID)	1 376 061	1 044 490
PAYE deductions	2 237 645	2 154 680
<b>Total</b>	<b>3 613 706</b>	<b>3 199 170</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>17. Unspent grants</b>		
<b>Unspent conditional grants and receipts consist of:</b>		
<b>Unspent conditional grants and receipts</b>		
Municipal Infrastructure Grant	14 602 878	-
Regional Bulk Infrastructure Grant	59 679 014	40 551 330
Water Services Infrastructure Grant	-	5 729 021
Provincial Government - Free State	8 979 260	8 979 260
	<b>83 261 152</b>	<b>55 259 611</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	55 259 611	53 334 375
Additions during the year	385 890 678	405 089 382
Income recognition during the year	(357 889 137)	(403 164 146)
	<b>83 261 152</b>	<b>55 259 611</b>

Refer to note 29 for reconciliation of grants from National/Provincial Government.

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



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand		2022	2021
<b>18. Provisions and other employee liabilities</b>			
Landfill sites	18.1	32 529 536	29 785 894
Long-service awards	18.2	14 161 144	13 418 000
<b>Total</b>		<b>46 690 680</b>	<b>43 203 894</b>
Transferred to current provisions		(2 398 801)	(1 959 000)
<b>Total non-current provision</b>		<b>44 291 879</b>	<b>41 244 894</b>
Non-current		44 291 879	41 244 894
Current		2 398 801	1 959 000
<b>Total</b>		<b>46 690 680</b>	<b>43 203 894</b>

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

### 18.1 Landfill sites

Opening Balance		29 785 894	13 741 077
Increases (Passage of Time/Discounted Rate)		2 570 952	2 288 185
Change in provision		172 690	13 756 632
<b>Closing balance</b>		<b>32 529 536</b>	<b>29 785 894</b>

In terms of the Mineral and Petroleum Resources Development Act, 2002 (No 28 of 2002), it is required from the municipality to execute the environmental management program to restore the landfill sites at Ficksburg, Clocolan, Marquard and Senekal.

Provision has been made for this cost based on actual cost calculations received from Consulting Engineers. The value of the provision is based on the expected future cost to rehabilitate the various sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The Municipality estimates the useful lives and makes assumptions as to the useful lives of these assets, which influence the provision for future costs.

The following assumptions were used to calculate the provision:

- Discount rate 9.39% (2021: 9.08%)
- Inflation rate 7.4% (2021: 6.5%)

Each of the landfill site has different adjusted remaining lifespans (RUL) as follows:

- Ficksburg - 11 years (2021: 12 years)
- Senekal - 10 years (2021: 12 years)
- Marquard - 2 years (2021: 3 years)
- Clocolan - 2 years (2021: 3 years)

The total landfill site area per site is as follows:

- Ficksburg - 60 000 m<sup>2</sup>
- Senekal - 60 000 m<sup>2</sup>
- Clocolan - 143 000 m<sup>2</sup>
- Marquard - 68 000 m<sup>2</sup>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021		
<b>18. Provisions and other employee liabilities (continued)</b>				
<b>Rehabilitation cost per location</b>				
<b>Location</b>	<b>Proposed rehabilitation date</b>	<b>Post closure monitoring date</b>		
Ficksburg	2033/2034	2063/2064	3 230 018	2 586 852
Senekal	2031/2032	2062/2063	3 198 771	3 360 086
Clocolan	2023/2024	2054/2055	16 998 063	15 595 590
Marquard	2023/2024	2054/2055	9 102 684	8 243 366
			<b>32 529 536</b>	<b>29 785 894</b>
<b>18.2 Long-service awards</b>				
Opening Balance			13 418 000	12 765 000
Increases			1 357 000	1 289 000
Increases (Passage of Time/Discounted Rate)			1 119 000	848 000
Benefits paid and actuarial gains/losses			(1 732 856)	(1 484 000)
<b>Closing balance</b>			<b>14 161 144</b>	<b>13 418 000</b>
Transferred to current provisions			(2 398 801)	(1 959 000)
<b>Total non-current provision</b>			<b>11 762 343</b>	<b>11 459 000</b>
<b>Net benefit expense</b>				
Current service cost			1 357 000	1 289 000
Interest			1 119 000	848 000
Benefits paid			(1 125 924)	(1 097 766)
Actuarial (gain) / loss			(606 932)	(386 234)
			<b>743 144</b>	<b>653 000</b>

An actuarial valuation of the liability in respect of the long service awards was performed by an independent company. The primary purpose of this valuation is to enable the municipality to comply with the requirements of GRAP 25. The liability amounts are calculated in accordance with GRAP 25 and can therefore be used in the compilation of the Annual Financial Statements of the Municipality.

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The provision represents an estimation of the awards to which employees in the service of the Municipality may become entitled to in the future.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 18. Provisions and other employee liabilities (continued)

#### Membership data

Number of current employees	627	643
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In estimating the unfunded liability for Long Service Award 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 is difficult to predict future investment returns and earnings inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the Valuation Date for the period over which the liability obligations are to be settled.

It should be noted that the valuation method and assumptions do not affect the ultimate cost of the Long Service Awards 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.

The key financial and demographic assumptions are summarised below.

#### Financial variables

The two most important financial variables used in our valuation are the discount rate and salary inflation. We have assumed the following values for these variables:

	Current valuation	Preceding valuation
Discount rate	11.08 %	8.98 %
CPI (Consumer price inflation)	6.79 %	4.74 %
Normal salary increase rate	7.79 %	5.74 %
Net effective discount rate	3.05 %	3.07 %

# Setso Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 18. Provisions and other employee liabilities (continued)

#### Discount Rate:

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the employee benefit liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Consequently, a discount rate of 11.08% (2021: 8.98%) per annum has been used. The first step in the derivation of this yield is to calculate the liability-weighted average of the yields corresponding to the actual terms until payments of long service awards, for each employee. The 11.08% is then derived as the liability-weighted average of the yields derived in the first step. The corresponding liability-weighted index-linked yield is 3.55% (2021: 3.57%). These rates do not reflect any adjustment for taxation. These rates were deducted from the interest rate data obtained from the JSE after the market close on 30 June 2022. The liability-weighted average term of the liability is 7.10 years (2021: 8.50 years).

#### Earnings Inflation Rate:

This assumption is required to reflect the estimated growth in earnings of the eligible employees until retirement. It is important in that the Long Service Awards are based on an employee's earnings at the date of the award.

The assumption is traditionally split into two components, namely General Earnings Inflation and Promotional Escalation. The latter is considered under demographic assumptions.

#### General Earnings Inflation:

This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, earnings inflation is between 1.0% and 1.5% above CPI inflation.

A general earnings inflation rate of 7.79% per annum over the expected term of the liability has been assumed, which is 1,00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 3.05%. It has been assumed that the next earnings increase will take place on 1 July 2023.

#### Demographic Assumptions:

Demographic assumptions are required about the future characteristics of current employees who are eligible for Long Service Awards.

#### Promotional Earnings Scale:

The annual inflation rates below are in addition to the General Earnings Inflation assumption of 7.79% (2021: 5.74%) per annum for all employees.

In addition to the normal salary inflation rate, we assumed the following promotional salary increase:

#### Average Retirement Age:

The normal retirement age of employees is 65. It has been assumed that employees will retire at age 62 on average, which then implicitly allows for expected rates of all ill-health and early retirement. Employees who have passed the assumed retirement age, have been assumed to retire at their next birthday.

#### Pre-retirement Mortality:

SA85-90 ultimate table, adjusted down for female lives.

#### Withdrawal from Service:

If an employee leaves, the employer's liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates. A sample of the assumed rates is set out below:

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 18. Provisions and other employee liabilities (continued)

Age Band	Withdrawal rate females	Withdrawal rate males
20	9 %	9 %
25	8 %	8 %
30	6 %	6 %
35	5 %	5 %
40	5 %	5 %
45	4 %	4 %
50	3 %	3 %
55+	0 %	0 %

Plan Assets:

Management has indicated that there are currently no long-term assets set aside off-balance sheet in respect of the LSA liability.

#### Sensitivity analysis

##### Salary increase rate:

The valuation bases assume that the salary inflation rate will be 3.05% less than the corresponding discount rate, in the long term. The effect of a one percent increase and decrease in the salary inflation rates is as follows:

	1% Decrease R's	30 June 2022 Valuation basis R's	1% Increase R's
Employer's accrued liability	13 404 637	14 161 144	14 974 912
Employer's current service cost	1 275 000	1 357 000	1 447 000
Employer's interest cost	1 057 000	1 119 000	1 187 000

##### Mortality decrement:

The table that follows show the impact of a change in the mortality assumption from SA85-90 to SA85-90 with a two-year adjustment:

	30 June 2022 Valuation basis SA85-90 R's	SA85-90 -2 R's
Employer's accrued liability	14 161 144	14 206 899
Employer's current service cost	1 357 000	1 363 000
Employer's expense cost	1 119 000	1 125 000

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

2022

2021

### 18. Provisions and other employee liabilities (continued)

#### Defined benefit plan

The municipality provides retirement benefits for its employees and councillors. Benefits are provided via defined contribution plans and defined benefit plans as listed below and which are administrated by various pension, provident and annuity funds.

These plans are subject to the Pension Fund Act, 1956 (Act No. 24 of 1956) and include defined contribution plans.

The municipality is under no obligation to cover any unfunded benefits. The only obligation of the municipality is to make the specified contributions.

Sufficient information was not available to use defined benefit accounting for the funds and it was accounted for as defined contribution plans due to the following reasons:

- The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating employers;
- One set of financial statements are compiled for all the funds and not for each participating employer; and
- The same rate of contribution applies to all participating employers and no regard is paid to differences in the membership distribution of the participating employers.

This is in line with the exemption in GRAP 25 paragraph 31 which states that where information required for proper defined benefit accounting is not available in respect of multi-employer and state plans, these should be accounted for as defined contribution plans.

The following are defined benefit plans:

- Free State Municipal Pension Fund
- South African Local Authorities Pension Fund

#### Defined contribution plan

The following are defined contribution plans:

- Free State Municipal Provident Fund
- South African Local Authorities Provident Fund
- National Fund for Municipal Workers

These are not treated as a defined benefit plan as defined by GRAP 25, but as a defined contribution plan. These funds are multi-employer plans and actuarial valuations done by actuaries could not be provided due to lack of information. According to the actuaries, it is not possible to report each municipality separately, thus it has been classified as a contribution plan.

Some employees belong to the SALA Pension Fund. The latest actuarial valuation of the funds was on 1 July 2010. These valuations indicate that the funds are in sound financial position. The estimated liabilities of the fund are R 7 418 million (2009: R 6 568 million) which is adequately financed by assets of R 7 110 million (2009: R 6 304 million). The actuarial valuations states that the fund is currently 96% funded by employer contributions. If the current employer contribution rate is maintained the fund is expected to be close to 100% funded at the next statutory valuation.

A few employees belong to the Free State Municipal Pension Fund. The latest actuarial valuations of the fund were on 30 June 2015. These valuations indicate that the fund is in a sound financial position. The estimated liabilities of the fund are R1 308 million which is adequately financed by assets of R 1 531 million. The actuarial valuation determined that the retirement plan was in a sound financial position.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand		2022	2021
<b>19. Post-retirement health care benefit liability</b>			
Post-retirement medical aid	19.1	59 496 196	53 515 000
Current liabilities		1 864 445	1 389 000
Non-current liabilities		57 631 751	52 126 000
<b>Total</b>		<b>59 496 196</b>	<b>53 515 000</b>

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

### 19.1 Post-retirement medical aid

#### Post-retirement medical benefits liability

Present value of defined benefit obligation	19.1.1	59 496 196	53 515 000
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#### 19.1.1 Reconciliation of present value of the post-retirement medical benefit obligation

	Post-retirement medical benefits	Total
Defined benefit obligation at 01 July 2020	42 839 000	42 839 000
Interest cost	4 513 000	4 513 000
Current service cost	2 028 000	2 028 000
Actuarial (Gains) / Losses recognised	5 590 815	5 590 815
Benefits paid	(1 455 815)	(1 455 815)
<b>Defined benefit obligation at 30 June 2021</b>	<b>53 515 000</b>	<b>53 515 000</b>
Interest cost	5 426 000	5 426 000
Current service cost	2 610 000	2 610 000
Actuarial (Gains) / Losses recognised	(549 965)	(549 965)
Benefits paid	(1 504 839)	(1 504 839)
<b>Defined benefit obligation at 30 June 2022</b>	<b>59 496 196</b>	<b>59 496 196</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>19. Post-retirement health care benefit liability (continued)</b>		
<b>19.1.2 Net benefit expense - statement of financial performance</b>		
	Post-retirement medical benefits	Total
<b>For the year ended 30 June 2021</b>		
Current service cost	2 028 000	2 028 000
Benefits paid	(1 455 815)	(1 455 815)
Interest cost on benefit obligation	4 513 000	4 513 000
Actuarial gains / losses recognised	5 590 815	5 590 815
<b>Total expense recognised in the statement of financial performance</b>	<b>10 676 000</b>	<b>10 676 000</b>
<b>For the year ended 30 June 2022</b>		
Current service cost	2 610 000	2 610 000
Benefits paid	(1 504 839)	(1 504 839)
Interest cost on benefit obligation	5 426 000	5 426 000
Actuarial gains / losses recognised	(549 965)	(549 965)
<b>Total expense recognised in the statement of financial performance</b>	<b>5 981 196</b>	<b>5 981 196</b>

The post-retirement medical plan is a defined benefit plan, of which the members are made up as follows:

### Total members

In service (employee) members	533	538
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In accordance with the requirements of GRAP 25, the Projected Unit Credit method has been applied. The assumption underlying the funding method is that the employer's post-employment medical scheme costs in respect of an employee should be fully recognised by the time that the employee reaches fully accrued age. The valuation has been made with reference to Actuarial Society of South Africa (ASSA) guidelines, in particular, the Advisory Practice Note 207, and is consistent with the requirements of GRAP 25.



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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### 19. Post-retirement health care benefit liability (continued)

#### 19.1.3 Key actuarial assumptions

The principal actuarial assumptions used in determining the present value of the defined benefit obligation for the post-employment medical benefits include:

Discount rate	13.09 %	10.27 %
Consumer price inflation rate	8.10 %	5.45 %
Healthcare cost inflation rate	9.60 %	6.95 %
Net discount rate	3.18 %	3.10 %

It is difficult to predict future investment returns and health care cost inflation rates. The relationship between them is more stable and therefore easier to predict. GRAP 25 requires that financial assumptions be based on market expectations at the valuation date for the period over which the liability obligations are to be settled.

Discount rate:

GRAP 25 stipulates that the choice of this rate should be derived from government bond yields consistent with the estimated term of the post-employment liabilities. However, where there is no deep market in government bonds with a sufficiently long maturity to match the estimated term of all the benefit payments, current market rates of the appropriate term should be used to discount shorter term payments, and the discount rate for longer maturities should be estimated by extrapolating current market rates along the yield curve.

Eligible employees and continuation pensioners:

The table below illustrates the average total monthly medical contribution subsidies payable to continuation pensioners and active employees. The employees' contributions are those payable to the employees and their spouses in retirement, at the current rates:

	Average age 30 June 2022	Average employer monthly contribution 30 June 2022
Active employees on medical aid	45.52	3 545
Active employees not on medical aid	46.12	3 118
Continuation pensioners	72.78	3 643

Health care cost inflation rate:

The assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 9.60% (2021: 6.95%) has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability.

However, it is relative levels of the discount rate and healthcare inflation to one another that is important, rather than the nominal values. We have thus assumed a net discount factor of 3.18% per annum  $([1 + 13.09\%] / [1 + 9.60\%] - 1)$ . This year's valuation basis is, therefore, stronger than the previous year's basis from a discount rate perspective.

Demographic assumptions:

A) Mortality during employment

SA 85-90 ultimate table, normal.

B) Post-employment mortality

PA(90) table, adjusted down by one year of age, and a 1% annual compound mortality improvement from 2010.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

2022

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### 19. Post-retirement health care benefit liability (continued)

Withdrawal from service:

If an n-service member leaves, the employer's liability in respect of that employee ceases. It is therefore important not to overstate withdrawal rates. A sample of assumed rates is set out below:

Age	Withdrawal rate females	Withdrawal rate males
20	9 %	9 %
25	8 %	8 %
30	6 %	6 %
35	5 %	5 %
40	5 %	5 %
45	4 %	4 %
50	3 %	3 %
55+	0 %	0 %

Average retirement age:

The normal retirement age of employees is 65. It has been assumed that in-service members will retire at age 62 on average, which then implicitly allows for expected rates of ill-health and early retirement. In-service members who have passed the assumed retirement age, have been assumed to retire at their next birthday.

Continuation of membership:

It has been assumed that 75% of in-service members will remain on the municipality's health care arrangement should they stay until retirement.

Family profile:

It has been assumed that female spouses will be five years younger than their male counterparts. Furthermore, we've assumed that 60% of eligible in-service members on a health care arrangement at retirement will have a spouse dependant on their medical aid. For current retiree members, actual medical aid dependants were used and the potential for remarriage was ignored.

Plan assets:

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

# Setso Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 19. Post-retirement health care benefit liability (continued)

#### 19.1.4 Sensitivity analysis

A one percentage point change in the assumed rate of increase in healthcare inflation would have the following effects (year following):

	Increase	Decrease
<b>2021</b>		
Effect on current service cost	2 325 000	1 705 000
Effect on current interest cost	4 972 000	4 014 000
<b>2022</b>		
Effect on current service cost	2 971 000	2 196 000
Effect on current interest cost	5 984 000	4 802 000
Effect on the defined benefit obligation	67 503 136	52 292 855

The effect of a one percent increase and decrease (year following) in the discount rate is as follows:

	1% Decrease R's	30 June 2022 Valuation basis R's	1% Increase R's
Employer's accrued liability	67 690 220	59 496 196	52 765 216
Employer's service cost	3 211 000	2 610 000	2 149 000
Employer's interest cost	5 742 000	5 426 000	5 142 000

The table below shows the impact (year following) of reducing the average retirement age by one year:

	30 June 2022 Valuation basis R's	Ave. Ret. Age - 1 year R's
Employer's accrued liability	59 496 196	62 267 190
Employer's service cost	2 610 000	2 802 000
Employer's interest cost	5 426 000	5 811 000

The table below shows the impact (year following) of a change in the mortality assumption from PA(90) to PA(90) with a one-year adjustment:

	30 June 2022 Valuation basis R's	PA(90) - 1 R's
Employer's accrued liability	59 496 196	60 934 490
Employer's service cost	2 610 000	2 672 000
Employer's interest cost	5 426 000	5 578 000

The table below shows the impact (year following) of reducing the continuation, of medical aid, rate at retirement by ten percent:

	30 June 2022 Valuation basis R's	Continuation Rate - 10% R's
Employer's accrued liability	59 496 196	53 562 194
Employer's service cost	2 610 000	2 260 000
Employer's interest cost	5 426 000	4 889 000

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>20. Property rates</b>		
State	16 621 805	16 573 005
Privately owned properties	39 546 639	49 435 527
<b>Total</b>	<b>56 168 444</b>	<b>66 008 532</b>

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

### Valuation as at 30 June 2022

Residential	2 316 567 100	2 300 699 100
Commercial	620 479 000	620 429 000
State	489 636 200	486 836 200
Municipal	888 634 700	905 148 700
Small holdings and farms	3 972 327 300	3 974 527 300
Churches	66 288 000	66 288 000
<b>Total property valuations</b>	<b>8 353 932 300</b>	<b>8 353 928 300</b>

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2018. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

A general rate of R0.02 (2021: R0.02) is applied to property valuations to determine assessment rates of residential properties. A general rate of R0.04 (2021: R0.04) is applied to property valuations to determine assessment rates of business properties.

Rebates of 44% (2021: 47%) are granted to the residential and state property owners and on farm properties 55.5% (2021: 57.5%).

Rates are levied on an annual basis with equal payments over twelve months. Interest at prime plus 1% per annum is levied on outstanding rates.

Property rates	64 828 153	66 417 659
Less: Income forgone	(8 659 709)	(409 127)
	<b>56 168 444</b>	<b>66 008 532</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>21. Service charges</b>		
<b>Electricity</b>		
Consumption - Electricity	91 140 931	87 817 196
Less: Income forgone	(219)	(563 548)
<b>Total</b>	<b>91 140 712</b>	<b>87 253 648</b>
<b>Waste management</b>		
Consumption - Waste management	48 382 632	45 192 320
Less: Income forgone	(5 323 177)	(2 022 467)
<b>Total</b>	<b>43 059 455</b>	<b>43 169 853</b>
<b>Waste water management</b>		
Consumption - Waste water management	37 169 039	34 668 694
Less: Income forgone	(3 879 439)	(1 413 406)
<b>Total</b>	<b>33 289 600</b>	<b>33 255 288</b>
<b>Water</b>		
Consumption - Water	65 196 889	60 499 922
Less: Income forgone	(4 707 571)	(2 904 210)
<b>Total</b>	<b>60 489 318</b>	<b>57 595 712</b>
<b>Total service charges</b>	<b>227 979 085</b>	<b>221 274 501</b>

## 22. Sales of goods and rendering of services

Building Plan Approval	181 929	195 403
Camping Fees	3 687	3 212
Cemetery and Burial	1 113 096	1 249 543
Clearance Certificates	143 350	130 675
Escort Fees	111 161	122 888
Photo copies, Faxes and Telephone charges	985	1 898
Sale of Goods	415 718	503 390
Town Planning and Servitudes	15 067	15 845
<b>Total</b>	<b>1 984 993</b>	<b>2 222 854</b>

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>23. Rental</b>		
Rental of facilities and equipment	119 327	58 697
Premises	1 905 374	1 288 956
<b>Total</b>	<b>2 024 701</b>	<b>1 347 653</b>
<b>24. Interests on investments</b>		
Interest earned on cash and bank	261 294	385 854
Interest on eskom deposit	91 999	116 357
Interest earned on short-term investments	4 411 500	1 464 303
<b>Total</b>	<b>4 764 793</b>	<b>1 966 514</b>
<p>*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.</p>		
<b>25. Interest earned from receivables</b>		
Exchange receivables	25.1 30 166 577	25 323 759
Non-exchange receivables	25.2 4 132 568	3 474 137
<b>Total</b>	<b>34 299 145</b>	<b>28 797 896</b>
<p>*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.</p>		
<b>25.1 Interest earned from exchange receivables</b>		
<b>Consumer receivables</b>		
Service charges	30 166 577	25 323 759
<b>25.2 Interest earned from non-exchange receivables</b>		
<b>Consumer receivables</b>		
Property rates and availability charges	4 132 568	3 474 137
<b>26. Dividends</b>		
External investment	55 404	46 880

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand		2022	2021
<b>27. Fines, penalties and forfeits</b>			
Fines	27.1	890 770	1 104 926
<b>27.1 Fines</b>			
<b>Traffic fines</b>			
Court fines		860 770	1 084 350
<b>Other fines</b>			
Pound fees		30 000	20 576
<b>Total</b>		<b>890 770</b>	<b>1 104 926</b>
<b>28. Licences or permits</b>			
Non-exchange revenue	28.1	51 201	70 242
<b>28.1 Licenses and permits - Non-exchange revenue</b>			
Trading		51 201	70 242

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>29. Transfers and subsidies - Revenue</b>		
<b>Operational</b>		
Monetary allocations	217 481 860	244 576 339
<b>Capital</b>		
Allocations in-kind	-	8 076 388
Monetary allocations	141 107 276	158 587 807
<b>Total transfers and subsidies: Capital</b>	<b>141 107 276</b>	<b>166 664 195</b>
<b>Total</b>	<b>358 589 136</b>	<b>411 240 534</b>
<b>Monetary allocations: Operational</b>		
Equitable Share	213 017 999	240 513 857
Expanded Public Works Programme Integrated Grant	1 989 000	1 802 000
Local Government Financial Management Grant	2 100 000	2 000 000
Local Government, Water and Related Service SETA	374 861	260 482
	<b>217 481 860</b>	<b>244 576 339</b>
<b>Allocations in-kind: Capital</b>		
Donated assets	-	8 076 388
<b>Monetary allocations: Capital</b>		
Municipal Infrastructure Grant	35 189 122	46 365 138
Water Services Infrastructure Grant	40 095 817	19 374 999
Integrated National Electrification Programme Grant	2 000 000	-
Regional Bulk Infrastructure Grant	63 822 337	92 847 670
	<b>141 107 276</b>	<b>158 587 807</b>
<b>Equitable share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.		
All registered indigents received a monthly subsidy of R506 (2021:R471), which is funded from the grant.		
An amount of R32 779 000 was withheld from the equitable share.		
An amount of R700 000 (2021: R700 000) was recognised under equitable share for the municipal manager's salary debtor receivable from COGTA.		
<b>Expanded Public Works Programme Integrated Grant</b>		
Current year receipts	1 989 000	1 802 000
Conditions met - transferred to revenue	(1 989 000)	(1 802 000)
	-	-

The grant is used for job creation projects in previous disadvantage areas.



# Setsotho Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

	2022	2021
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### 29. Transfers and subsidies - Revenue (continued)

#### Local Government Financial Management Grant

Current year receipts	2 100 000	2 000 000
Conditions met - transferred to revenue	(2 100 000)	(2 000 000)
	-	-

The Financial Management Grant is paid by National Treasury to municipalities to help implement the financial reforms required by the Municipal Finance Management Act (MFMA), 2003. The FMG Grant also pays for the cost of the Financial Management Internship Programme (e.g. salary costs of the Financial Management Interns).

#### Local Government, Water and Related Service SETA

Current year receipts	374 861	260 482
Conditions met - transferred to revenue	(374 861)	(260 482)
	-	-

SETA will ensure that the skill requirements sector is identified and that adequate and appropriate skills are readily given to staff of the Municipality.

#### Municipal Infrastructure Grant

Balance unspent at beginning of year	-	5 520 276
Current year receipts	49 792 000	44 323 000
Conditions met - transferred to revenue	(35 189 122)	(46 365 138)
Roll-over withheld	-	(3 478 138)
	<b>14 602 878</b>	-

Conditions still to be met - remain liabilities (see note 17).

In terms of the MFMA Circular No. 48, all conditional allocations (excluding interest earned thereon) that at year-end are not utilised must revert back to National Revenue Fund unless the relevant receiving officer can prove to the satisfaction of the National Treasury that the unspent allocation is committed to identifiable projects. The municipality reports at year - end all unspent conditional grants were committed to identifiable projects.

The grant is used to supplement municipal capital budget to eradicate backlogs in municipal infrastructure utilised in providing basic services for the benefit of poor households. The grants were used construct roads and sewerage infrastructure as part of the upgrading of informal settlement areas.

#### Water Services Infrastructure Grant

Balance unspent at beginning of year	5 729 021	15 542 987
Current year receipts	40 095 817	19 374 999
Conditions met - transferred to revenue	(40 095 817)	(19 374 999)
Roll-over withheld	(5 729 021)	(9 813 966)
	-	<b>5 729 021</b>

This grant was used to address water loss control and assisting with water shortage in Clocolan, Marquard and Senekal during drought period.

Conditions still to be met - remain liabilities (see note 17).

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 29. Transfers and subsidies - Revenue (continued)

#### Integrated National Electrification Programme Grant

Current year receipts	2 000 000	-
Conditions met - transferred to revenue	(2 000 000)	-
	<hr/>	<hr/>
	-	-

This grant is provided by the Department of Energy to upgrade the electric network.

#### Regional Bulk Infrastructure Grant

Balance unspent at beginning of year	40 551 330	23 291 852
Current year receipts	110 000 000	133 399 000
Conditions met - transferred to revenue	(63 822 337)	(92 847 670)
Roll-over withheld	(27 049 979)	(23 291 852)
	<hr/>	<hr/>
	<b>59 679 014</b>	<b>40 551 330</b>

Conditions still to be met - remaining liabilities (see note 17).

The purpose of the grant is to assist the municipality in alleviating water availability and scarcity in the municipal area.

#### Provincial Government - Free State

Balance unspent at beginning of year	8 979 260	8 979 260
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Conditions still to be met - remaining liabilities (see note 17).

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>30. Operational revenue</b>		
Administrative handling fees	715 812	1 142 775
Commission	1 193 657	840 708
Incidental cash surpluses	734	(18 703)
Insurance refund	1 141 861	-
Request for information	-	42
Staff and councillors recoveries	-	195 811
<b>Total</b>	<b>3 052 064</b>	<b>2 160 633</b>

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

### 31. Fair value adjustment and loss on disposal of assets

Gains/(losses) on disposals	31.1	(7 410 731)	(12 599 975)
Fair value adjustment	31.2	95 273	115 759
<b>Total</b>		<b>(7 315 458)</b>	<b>(12 484 216)</b>

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

#### 31.1 Gains/(losses) on disposals

Investment property	(5 187 522)	(4 287 001)
Property, plant and equipment	(2 223 209)	(8 312 974)
<b>Total</b>	<b>(7 410 731)</b>	<b>(12 599 975)</b>

#### 31.2 Fair value adjustment

Investments	95 273	115 759
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### 32. Employee related cost

Senior management	32.1	6 027 860	6 541 058
Municipal staff	32.2	218 479 369	216 732 313
<b>Total</b>		<b>224 507 229</b>	<b>223 273 371</b>

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 32. Employee related cost (continued)

#### 32.1 Senior management costs

2022

	Municipal manager - Mr STR Ramakarane	Chief financial officer - Mr NL Moletsane	Director : Corporate Services - Mr TP Motsima	Director : Development, Planning and Security Services - Mr TR Zondo	Total
Basic salary	945 828	823 627	798 883	885 906	3 454 244
Bonuses	98 470	68 636	65 392	73 826	306 324
Service-related benefits	288 421	-	-	-	288 421
Allowances	325 848	162 600	283 366	158 432	930 246
Pension	791 608	142 539	45 339	60 639	1 040 125
Unemployment insurance	2 125	2 125	2 125	2 125	8 500
	<b>2 452 300</b>	<b>1 199 527</b>	<b>1 195 105</b>	<b>1 180 928</b>	<b>6 027 860</b>

Municipal manager:

COGTA agreed to finance an amount of R700 000 per annum towards the salary of the municipal manager. Funds received during the financial period amounted to R0 (2021: R0).

Director Engineering:

During the year the following personnel acted as director engineering:

- Mr MA Mokhetsoa for the period July 2021 - September 2021 - Acting allowance of R87 567
- Mr SM Mofubetsoane for the period October 2021 - March 2022 - Acting allowance of R191 831
- Mr WR De Villiers for the period April 2022 - June 2022 - Acting allowance of R84 406

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 32. Employee related cost (continued)

2021

	Municipal manager - Mr STR Ramakarane	Chief financial officer - Mr NL Moletsane	Director : Engineering Services - Me TF Zondi	Director : Corporate Services - Mr TP Motsima	Director : Development, Planning and Security Services - Mr TR Zondo	Total
Basic salary	945 828	754 992	463 020	784 705	885 906	3 834 451
Bonuses	78 819	-	69 194	65 392	73 826	287 231
Service-related benefits	-	130 638	106 975	-	-	237 613
Allowances	325 848	144 400	165 492	283 366	158 431	1 077 537
Pension	791 607	130 660	67 688	45 339	60 639	1 095 933
Unemployment insurance	1 813	1 664	1 190	1 813	1 813	8 293
	<b>2 143 915</b>	<b>1 162 354</b>	<b>873 559</b>	<b>1 180 615</b>	<b>1 180 615</b>	<b>6 541 058</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand

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### 32. Employee related cost (continued)

Municipal manager:

During the year the following personnel acted as municipal manager:

- Me TF Zondi for the period 10 June 2020 until 21 September 2020 - Acting allowance of R50 511
- Mr NL Moletsane for the period 10 November 2020 until 10 May 2021 - Acting allowance of R130 638

There is an amount of R236 457 payable to the municipal manager in terms of an arbitration award. This amount has not been included in the annual remuneration disclosed above.

COGTA agreed to finance an amount of R700 000 per annum towards the salary of the municipal manager. Funds received during the financial period amounted to R0 (2020: R0).

Chief Financial Officer:

During the year the following personnel acted as chief financial officer:

- Mr DJ van Tonder for the period 1 June 2020 until 31 July 2020 - Acting allowance of R61 588

Mr NL Moletsane was appointed on 1 August 2020.

Director Corporate Services:

During the year the following personnel acted as director corporate services:

- Me BL Mokoena for the period 12 October 2020 until 24 December 2020 - Acting allowance of R92 551

Mr TP Motsima was appointed in February 2020.

Director Engineering Services:

During the year the following personnel acted as director engineering services:

- Mr MA Mokhethoa for the period 1 March 2021 until 30 June 2021 - Acting allowance R77 535

Me TF Zondi resigned from her position during February 2021.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>32. Employee related cost (continued)</b>		
<b>32.2 Municipal staff costs</b>		
Basic salary	127 523 844	120 874 965
Bonuses	10 150 220	10 087 407
Service-related benefits	18 102 732	18 589 612
Allowances	14 214 446	15 769 404
Bargaining council	77 915	76 541
Group life insurance	854 346	856 119
Medical	15 722 369	14 839 189
Pension	21 196 843	20 617 305
Post-retirement benefit: Medical	7 486 035	12 131 815
Post-retirement benefit: Other benefits	1 869 068	1 750 765
Unemployment insurance	1 281 551	1 139 191
<b>Total</b>	<b>218 479 369</b>	<b>216 732 313</b>
<b>Service-related benefits consist of:</b>		
Overtime payments	13 029 466	12 788 917
Leave pay charge	2 520 028	3 791 078
Acting allowances	2 553 238	2 009 617
	<b>18 102 732</b>	<b>18 589 612</b>
<b>Allowances consist of:</b>		
Travel allowance	13 251 625	12 538 375
Housing benefits and allowances	406 988	2 565 064
Telephone allowance	555 833	665 965
	<b>14 214 446</b>	<b>15 769 404</b>
<b>Post-retirement benefit : Medical consists of:</b>		
Current service cost	2 610 000	2 028 000
Actuarial (gain) / loss	(549 965)	5 590 815
Interest cost	5 426 000	4 513 000
	<b>7 486 035</b>	<b>12 131 815</b>
<b>Post-retirement benefit : Long service consists of:</b>		
Current service cost	1 357 000	1 289 000
Actuarial (gain) / loss	(606 932)	(386 235)
Interest cost	1 119 000	848 000
	<b>1 869 068</b>	<b>1 750 765</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand		2022	2021
<b>33. Remuneration of councillors</b>			
Executive mayor	33.1	875 874	905 259
Speaker	33.2	633 861	733 088
Executive committee	33.3	3 231 431	3 070 494
All other councillors	33.4	8 130 177	8 258 289
<b>Total</b>		<b>12 871 343</b>	<b>12 967 130</b>
<b>33.1 Executive mayor</b>			
<b>Allowances and service related benefits</b>			
Basic salary		633 590	681 513
Cell phone allowance		40 700	44 400
Travelling allowance		201 584	179 346
		<b>875 874</b>	<b>905 259</b>
<b>33.2 Speaker</b>			
<b>Allowances and service related benefits</b>			
Basic salary		442 828	516 516
Cell phone allowance		40 700	44 400
Travelling allowance		150 333	172 172
		<b>633 861</b>	<b>733 088</b>
<b>33.3 Executive committee</b>			
<b>Allowances and service related benefits</b>			
Basic salary		2 364 582	2 271 872
Cell phone allowance		207 807	218 300
Travelling allowance		659 042	580 322
		<b>3 231 431</b>	<b>3 070 494</b>
<b>33.4 All other councillors</b>			
<b>Allowances and service related benefits</b>			
Basic salary		6 159 227	6 085 070
Cell phone allowance		1 132 955	1 132 200
Travelling allowance		837 995	1 041 019
		<b>8 130 177</b>	<b>8 258 289</b>

### In kind benefits

The Executive Mayor, Speaker, and Mayoral Committee members are employed full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Executive Mayor and Speaker has use of a Council owned vehicle for official duties.



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand		2022	2021
<b>34. Depreciation and amortisation</b>			
<b>Amortisation</b>			
Intangible assets	12.1	372 124	761 783
<b>Depreciation</b>			
Investment property	9.1	10 535 979	8 898 913
Property, plant and equipment	10	248 974 166	385 083 101
		<b>259 510 145</b>	<b>393 982 014</b>
<b>Total</b>		<b>259 882 269</b>	<b>394 743 797</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand		2022	2021
<b>35. Impairment losses on assets</b>			
<b>Impairment loss / reversal of impairment</b>			
Investment property	9.1	107 824	2 247
Property, plant and equipment	10	27 256 139	16 973 160
		<b>27 363 963</b>	<b>16 975 407</b>
<b>Contribution (to)/from provision for impairment to surplus and deficit:</b>			
Trade and other receivables from exchange transactions		1 658 867	53 952 977
Other Receivables from Non-exchange Revenue		(1 347 398)	6 018 391
		<b>311 469</b>	<b>59 971 368</b>
<b>Total</b>		<b>27 675 432</b>	<b>76 946 775</b>

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

### 36. Finance costs

Interest	36.1	4 660 724	5 933 749
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\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

#### 36.1 Interest cost

Financial liabilities			
• Other financial liabilities		283 900	355 817
		<b>283 900</b>	<b>355 817</b>
Finance leases			
Unwinding of provision for landfill sites	18.1	738 523	1 595 357
Overdue accounts		2 570 952	2 288 185
		1 067 349	1 694 390
		<b>4 376 824</b>	<b>5 577 932</b>
<b>Total</b>		<b>4 660 724</b>	<b>5 933 749</b>

### 37. Bulk Purchases

Electricity: Eskom		93 222 334	80 035 213
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### 38. Inventory consumed

Materials and supplies		11 964 939	9 114 318
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\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

# Setso Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>39. Contracted services</b>		
Consultants and professional services	39.1 12 825 206	12 075 720
Contractors	39.2 11 707 499	11 812 366
Outsourced services	39.3 1 304 853	448 070
<b>Total</b>	<b>25 837 558</b>	<b>24 336 156</b>
<b>39.1 Consultants and professional services</b>		
<b>Business advisory services</b>		
Accounting and auditing	5 217 095	6 547 259
Audit committee	473 590	418 778
Business and financial management	3 730 381	709 558
Valuer and assessors	-	79 166
<b>Total business advisory services</b>	<b>9 421 066</b>	<b>7 754 761</b>
<b>Laboratory services</b>		
Water	382 930	508 505
<b>Legal services</b>		
Legal advice and litigation	2 189 793	3 086 569
<b>Infrastructure and planning services</b>		
Town planner infrastructure and planning	831 417	725 885
<b>Total consultants and professional services</b>	<b>12 825 206</b>	<b>12 075 720</b>
<b>39.2 Contractors</b>		
<b>General services</b>		
Electrical	250 953	101 920
Employee wellness	19 662	2 100
Safeguard and security	2 456 034	1 568 782
Sports and recreation	13 368	17 720
<b>Total general services</b>	<b>2 740 017</b>	<b>1 690 522</b>
<b>Maintenance services</b>		
Maintenance of buildings and facilities	828 074	687 676
Maintenance of equipment	4 067 968	6 591 530
Maintenance of unspecified assets	4 071 440	2 842 638
<b>Total maintenance service</b>	<b>8 967 482</b>	<b>10 121 844</b>
<b>Total contractor</b>	<b>11 707 499</b>	<b>11 812 366</b>
<b>39.3 Outsourced services</b>		
<b>Business and advisory services</b>		
Communications	380 000	-
<b>General services</b>		
Burial Services	173 938	259 618
Catering Services	80 300	2 530
Hygiene Services	150 680	103 922
Meter Management	83 848	82 000
Sewerage Services	436 087	-
<b>Total general services</b>	<b>924 853</b>	<b>448 070</b>
<b>Total outsourced services</b>	<b>1 304 853</b>	<b>448 070</b>

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

# Setsotho Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>40. Operational costs</b>		
Achievements and Awards	7 680	-
Advertising, Publicity and Marketing	516 831	436 333
Bank Charges, Facility and Card Fees	982 299	959 692
Commission	1 507 267	2 444 243
Communication	1 547 001	1 534 103
Courier and Delivery Services	546	-
Entertainment	-	2 524
External Computer Service	4 511 891	3 594 838
Hire Charges	1 400 028	1 792 567
Insurance Underwriting	3 174 310	1 508 338
Licences	694 252	591 958
Permits	413 610	-
Printing, Publications and Books	299 268	270 193
Professional Bodies, Membership and Subscription	2 449 810	2 361 442
Registration Fees	659 610	237 545
Remuneration to Ward Committees	1 045 195	1 943 620
Skills Development Fund Levy	1 905 108	1 419 725
Travel and Subsistence	1 114 276	972 408
Uniform and Protective Clothing	640 985	328 781
Wet Fuel	8 065 005	5 265 803
Workmen's Compensation Fund	1 629 339	482 682
<b>Total</b>	<b>32 564 311</b>	<b>26 146 795</b>

\*Reclassification of amounts from the 2020/2021 financial year did occur due to the implementation of the National Treasury mSCOA annual financial statements template. Please refer to note 55 for mSCOA reclassifications per annual financial statement line item.

### 41. Operating leases

Furniture and Office Equipment	1 080 180	1 077 023
<b>Operating leases (as a lessee)</b>		
Within one year	363 330	1 089 991
In second to fifth year	-	363 330
<b>Total</b>	<b>363 330</b>	<b>1 453 321</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>42. Net cash from/(used) operating activities</b>		
Deficit after capital transfers and contributions	(124 553 657)	(214 747 113)
<b>Adjustments for:</b>		
Depreciation and amortisation	259 882 269	394 743 797
Bad debts written off	113 923 847	84 986 214
Actuarial gains / losses	(1 156 897)	5 204 580
(Gains) / Losses on disposal of assets	7 410 731	12 599 975
Fair value adjustment	(95 273)	(115 759)
Finance cost - Employee benefits	6 545 000	5 361 000
Finance costs provisions	2 570 952	2 288 185
Impairment loss	27 675 432	76 946 775
Donated asset	-	(8 076 388)
Interest accrual	-	(4 039)
Employee benefit movement	1 336 237	763 419
<b>Movement in working capital</b>		
(Increase) / Decrease in receivables from non-exchange transactions	(13 285 567)	(9 676 275)
(Increase) / Decrease in inventory	176 964	(39 092)
(Increase) / Decrease in receivables from exchange transactions	(116 687 015)	(143 581 932)
(Increase) / Decrease in consumer deposits	11 295	36 830
(Increase) / Decrease in VAT	(17 815 898)	(19 158 625)
Increase / (Decrease) in trade and other payables	3 347 573	(8 806 893)
Increase / (Decrease) in unspent conditional grants	28 001 541	1 925 236
<b>Net cash flows from operating activities</b>	<b>177 287 534</b>	<b>180 649 895</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>43. Contingent liabilities</b>		
<b>MM. Masisi</b>	3 788 206	3 788 206
The matter is pending. On the 13th of May 2021, the Municipality received a settlement offer of R735 060 plus an annual interest of 10.25%, and a list of admissions, from Ms. Masisi's attorneys Cowan Harper Madikizela, however, the Municipality has rejected the settlement offer and has opted to proceed with defending the matter in court, due to the Municipality's prospects of success as advised by counsel in the matter.		
<b>IMATU obo F.Viljoen &amp; M Marx</b>	345 264	178 676
Applicants alleges unfair labour practice by the Municipality by not remunerating them like other managers.		
An amount of R89 338 was awarded per manager as per the arbitration process at 30 June 2021. The municipality has obtained a legal opinion, and the legal opinion states that there is a low probability that this amount will have to be paid. Matter pending, matter taken for Review in the Labour Court.		
<b>Linomtha</b>	5 213 566	5 213 566
The contractor is disputing the claims paid to him for the work done on the project Van Soelen Sewer Line.		
<b>Mr. Zondi</b>	30 000	30 000
Damaged palisade (Third part) at 65 Bloem Street Ficksburg during work in progress by the municipal offices.		
<b>Mr. Xaba</b>	26 000	26 000
Third party's vehicle slipped and he lost control of a vehicle due to water and oil on the street which caused him to collide with another vehicle. Claim submitted to the Municipality's insurance. Claimant seems to have abandoned claim as he has not approached the Municipality since submitting the claim in September 2019.		
<b>Mr. Swanepoel</b>	30 000	30 000
Damaged wall of third party during repairs of pipe burst at Caledon park in front of Sand and Klip Ficksburg.		
<b>L. Mokoena</b>	54 833	54 833
Claim for R54 833 for vehicle damages as a result of colliding with a third party's vehicle whilst trying to avoid a pothole on Andries Pretorius street in Clocolan on the 10th of July 2020. The matter is pending. The claimant's attorneys, Van Breda & Herbst are demanding R54 832.82 from the Municipality. The claim has been submitted to the Department of Engineering Services for investigation, and the claimant has been asked to provide supporting documentation in relation to the claim. The Municipality is awaiting the supporting documentation from the claimant's attorneys.		
<b>Roland Bottin</b>	530 545	530 545
Mr. Bottin is alleging that the Municipality, alternatively, the MEC for Roads and Transport, is responsible for alleged incident which allegedly resulted in his injuries, medical expenses and loss of income. The plaintiff's attorneys, Corne Van De Venter Inc, are demanding R530 545.		
<b>J. Smith</b>	38 252	-
Collision between a municipal vehicle and the claimant's insured vehicle, the claimant is demanding compensation for damages. The letter of demand was handed over to the Department of Engineering Services for investigation, and Third -Party claim has been submitted to the Municipality's insurers for assessment.		

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>43. Contingent liabilities (continued)</b>		
T. Lithakong Damaged electrical appliances (AEG Double oven stove, AEG electric hob, HITACHI side by side double door fridge, Hisense dishwasher) due maintenance which took place on the 5th of January 2022. Claim submitted to Department of Engineering Services for investigation, and they indicated that the electricians were correcting a neutral line which was going live. Legal Services are awaiting further reports on whether any damages were reported to the electricians on site on the day in question.	44 500	-
Louie Fourie Claim to fire damages, causing damage and destroying 80 000 rose trees. Weed guard (100) at a cost of R4000 per unit. Gyro Gardener Greenhouse. 80000 Mini Sprinklers at a cost of R35.00 per unit. Poles, Pipes& fencing, joints,taps R50 000. Netting Drip irrigation, water tanks&plastic canvas. 77 hectares of field destroyed due to the fire. Loss of income over four consecutive years at an income of R300 000 per year. The claim was submitted to the Department of Development Planning and Social Security for investigation, and claim has been submitted to the Municipality's insurers.	13 496 359	-
	<b>23 597 525</b>	<b>9 851 826</b>
<b>44. Contingent assets</b>		
Bastian Finance and Sharp Connect Civil Claim for R208 280.30 for unauthorised and illegal deduction from the municipal account after the services of Sharp Connect were terminated in July 2015. Matter pending. Ponoane Attorneys are still in the process of locating Bastian Finance to recover the amount, but have, as at 30 June 2021, remained unsuccessful.	208 280	-

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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### 45. Related party disclosures

#### 45.1 Nature of related party relationships

##### Related entities

Tema Resources : Reg number 2003/004389/07  
(Director : STR Ramakarane - Municipal Manager)

Morakare Trading Enterprises : Reg number  
2005/113728/23 (Member : STR Ramakarane -  
Municipal Manager)

Mhleka Investment Holding : Reg number  
2021/496181/07 (Director : NL Moletsane - CFO)

KNTLD Trading : Reg number 2007/038077/23  
(Member : NL Moletsane - CFO)

MDJ Entertainment : Reg number 2009/020357/23  
(Member : NL Moletsane - CFO)

Manthateng Enterprise : Reg number  
2017/282819/07 (Director : TR Zondo - Director  
DPSS)

Poloko Trading : Reg number 2006/055436/23  
(Member : TR Zondo - Director DPSS)

Tshepiso Flying Pest Control and Contractors : Reg  
number 2006/192177/23 (Member : T Motsima -  
Director DCS)

Landiwe Makhalema Foundation : Reg number  
2019/362236/08 (Director : T Motsima - Director  
DCS)

Phatsima Suppliers : Reg number 2006/038397/23  
(Member : T Motsima - Director DCS)

Motjha Iketsetse Trading : Reg number  
2006/044703/23 (Member : T Motsima - Director  
DCS)

Phatsimo Security Services : Reg number  
2006/180316/23 (Member : T Motsima - Director  
DCS)

Motsima Trading : Reg number 2006/214460/23  
(Member : T Motsima - Director DCS)

Big Brothers Trading : Reg number 2006/082498/23  
(Member : T Motsima - Director DCS)

Bright Idea Project 2397 : Reg number  
2009/201765/23 (Member : T Motsima - Director  
DCS)

No business was conducted with any of the above mentioned companies by Setsoto Local Municipality.



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
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### 46. Principal-agent arrangements

#### 46.1 Municipality acting as the principal

Fee paid as commission to the agent	1 507 267	2 444 243
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Details of the arrangement is as follows:

The municipality has appointed a service provider to sell prepaid electricity on its behalf. A binding written agreement is in place with the service provider.

Setsoto Local Municipality is the principal. The assumptions made in this regard are as follows:

- Setsoto Local Municipality is responsible for the provision of electricity services within its legislated area of jurisdiction.
- Electricity tariffs are determined by the municipality.
- The municipality is liable to pay the usage to the electricity provider (Eskom).
- Ownership in and to the vending of electricity is and shall at all times remain vested in the municipality and shall under no circumstances vest in the agent.

The service provider is responsible for the implementation of prepaid electricity vending system and accepts customer payments on the municipality's behalf. The vending system is also used as a form of credit control, integrating the system with the municipality's debt collection systems, in order to balance out the payment of arrears for post-paid services with customer payments for prepaid electricity.

The municipality shall pay over a commission of 2.5% (2.8% inclusive of VAT) in respect of services vended, which decreased from the prior year which was 5% (5.7% inclusive of VAT).

There are no changes to the terms of the agreement from the previous financial year.

Risks are managed through the supplier being required to pay over receipts collected on a daily basis to the municipality.

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

There are no resources of the municipality under the custodianship of the agent.

Resources and/or cost implications for the municipality if the principal-agent arrangement is terminated:

Should the agreement be terminated, in order to provide a similar experience to consumers, the municipality will need to incur the following costs:

- Purchase of vending machines
- Set-up of networks
- Arrangements with banks
- Security costs to protect the network and machines
- Additional insurance

### 47. Change in estimate

The useful lives of all asset classes were adjusted during 2022 to more accurately reflect the period of economic benefits or service potential derived from these assets. The effect of changing the remaining useful life of assets for the municipality during 2022 are as follows:

#### Increase / (Decrease) in depreciation per asset class:

Property, plant and equipment	(134 492 398)	292 960 195
Investment property	1 637 815	627 422
Intangible assets	(389 659)	-
	<b>(133 244 242)</b>	<b>293 587 617</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>48. Unauthorised, irregular, fruitless and wasteful expenditure</b>		
<b>48.1 Unauthorised expenditure</b>		
Opening balance as previously reported	446 916 335	127 354 819
Add: Unauthorised expenditure – current	176 617 291	319 561 516
<b>Closing balance</b>	<b>623 533 626</b>	<b>446 916 335</b>
Unauthorised expenditure derived mainly from depreciation and debt provisions which are non-cash financial entries.		
<b>48.2 Irregular expenditure</b>		
Opening balance as previously reported	282 339 840	189 971 894
Correction of prior period error	-	15 340 406
<b>Opening balance as restated</b>	<b>282 339 840</b>	<b>205 312 300</b>
Add: Irregular expenditure - current	53 609 988	77 876 589
Less: Amounts written-off – current	-	(849 049)
<b>Closing balance</b>	<b>335 949 828</b>	<b>282 339 840</b>
<b>Incident/cases identified in the current year include those listed below:</b>		
Expenditure items identified where the SCM processes and procedures were not followed	48 317 766	56 658 488
Procurement without competitive bidding	15 673	599 599
BAC composition	5 276 549	20 618 502
<b>Total</b>	<b>53 609 988</b>	<b>77 876 589</b>
<b>Payments to be recouped:</b>		
Opening balance	191 967	2 967
From mayor - payment of calendars	-	189 000
	<b>191 967</b>	<b>191 967</b>
<b>Correction of error details:</b>		
Balance as previously reported	282 339 840	189 971 894
Less: Irregular expenditure removed	-	(13 793 857)
Add: Additional irregular expenditure identified	-	29 134 263
	<b>282 339 840</b>	<b>205 312 300</b>

The irregular amounts disclosed above are exclusive of VAT.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021
<b>48. Unauthorised, irregular, fruitless and wasteful expenditure (continued)</b>		
<b>48.3 Fruitless and wasteful expenditure</b>		
Opening balance as previously reported	2 741 330	286 354
Correction of prior period error	139 851	(48 330)
<b>Opening balance as restated</b>	<b>2 881 181</b>	<b>238 024</b>
Add: Fruitless and wasteful expenditure – current	2 147 448	2 504 899
Less: Amounts written-off – current	(756 857)	(1 593)
<b>Closing balance</b>	<b>4 271 772</b>	<b>2 741 330</b>
<b>Details of fruitless and wasteful expenditure:</b>		
Payments made on interest and penalties	1 134 678	1 531 269
Other payments	1 012 770	973 630
<b>Total</b>	<b>2 147 448</b>	<b>2 504 899</b>
<b>Correction of error details</b>		
Balance as previously reported	2 741 330	286 354
Add: VAT previously not included in disclosure	139 851	-
Add: Amounts written off reversed	-	1 499 542
Less: Fruitless and wasteful reversed	-	(1 547 872)
	<b>2 881 181</b>	<b>238 024</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

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### 49. Councillor's municipal accounts in arrears

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

#### 30 June 2022

	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor SM Constable	2 561	50 475	53 036
Councillors PE Koqo	1 899	15 155	17 054
Councillor TG Makhalanyane	-	8 164	8 164
Councillor MJ Maleke	2 137	27 463	29 600
Councillor TS Manako	2 268	21 786	24 054
Councillor SJ Mbiwe	10 851	42 633	53 484
Councillor MD Mofokeng	1 701	5 240	6 941
Councillor LE Mohanoe	3 258	41 018	44 276
Councillor MJ Mokhobo	1 691	16 154	17 845
Councillor LG Mokoakoe	2 562	99	2 661
Councillor TP Motsoane	2 005	22 727	24 732
Councillor TI Mthimkhulu	3 298	38 380	41 678
Councillor MA Ponya	2 019	24 431	26 450
Councillor LD Thamae	5 486	61 010	66 496
	<b>41 736</b>	<b>374 735</b>	<b>416 471</b>

#### 30 June 2021

	Outstanding less than 90 days	Outstanding more than 90 days	Total
Councillor TB Jakobo	1 281	211	1 492
Councillor TB Jakobo (plus one other)	4 523	40 594	45 117
Councillor RS Lipoko	2 536	4 152	6 688
Councillor MK Ralehlatsi	2 597	845	3 442
Councillor MM Mokhele	5 066	13 033	18 099
Councillor TG Makhalanyane	-	8 164	8 164
Councillor TI Mthimkhulu	1 228	7 088	8 316
Councillor MM Mothibeli	1 773	891	2 664
	<b>19 004</b>	<b>74 978</b>	<b>93 982</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 49. Councillor's municipal accounts in arrears (continued)

During the year the following Councillors' had arrear accounts outstanding for more than 90 days

**30 June 2022**

	Highest amount outstanding	Ageing in days
Councillor SM Constable	53 775	1 267
Councillor PE Koqo	17 736	867
Councillor TG Makhalanyane	8 164	1 819
Councillor MJ Maleke	30 821	1 346
Councillor TS Manako	33 322	1 372
Councillor SJ Mbiwe	54 720	478
Councillor MD Mofokeng	7 190	393
Councillor LE Mohanoe	46 476	1 660
Councillor MJ Mokhobo	17 845	988
Councillor LG Mokoakoe	2 661	1 583
Councillor TP Motsoane	25 526	1 189
Councillor TI Mthimkhulu	42 602	1 158
Councillor MA Ponya	27 243	1 261
Councillor LD Thamae	68 808	1 161
Councillor TL Langa	3 767	528
Councillor TE Makae	3 894	307
Councillor MM Mokhele	25 865	353
Councillor SM Mokheseng	2 819	328
Councillor MA Motloenyia	4 927	318
Councillor JM Vermeulen	12 640	199
Councillor I Vries	3 959	213
	<b>494 760</b>	<b>18 788</b>

**30 June 2021**

	Highest amount outstanding	Ageing in days
Councillor MM Mokhele	22 082	649
Councillor RS Lipoko	11 420	274
Councillor MK Ralehlatsi	20 953	191
Councillor I Vries	8 257	388
Councillor TG Makhalanyane	1 454	99
Councillor KE Koalane	1 689	109
Councillor A Taylor	4 849	340
Councillor TB Jakobo	1 469	104
Councillor TB Jakobo (plus one other)	58 074	525
Councillor TI Mthimkhulu	11 735	720
Councillor MM Mothibeli	3 744	137
	<b>145 726</b>	<b>3 536</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 50. Deviations from SCM regulations - SCM Regulation 36

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 financial statements.

Various goods and services were procured during the financial year under review and the process followed in procuring those goods deviated from the normal procurement processes as required by paragraph 12(1) of the same gazette. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations. These deviations were recorded and reported to the meeting of council.

Deviation summary listing:

Emergency cases	7 005 797	3 374 888
Sole / Limited provider	2 352 943	2 091 836
Impractical to follow SCM process	3 185 986	3 007 973
Technical nature of the service	175 469	1 084 867
<b>Total amount approved by the accounting officer and noted by council</b>	<b>12 720 195</b>	<b>9 559 564</b>

The comparative figures have been restated by an amount of R2 000 857 due to items identified during the current financial year relating to the 2020/2021 financial year.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

### 51. Awards to close family members - SCM Regulation 45

#### Awards to close family members of persons in the service of Setsoto Local Municipality

Supplier name	Employee name	Relationship	Department	2022	2021
ERB Marketing and Business Solutions	R. Burgwandeen	Close family relation	IT specialist	-	104 348
Eternal City Trading	LZ. Tlale & TE. Majoale	Close family relation	Building inspector & SCM manager	-	28 496
Lira Transport	MP. Lira	Close family relation	Asset clerk	8 300	1 610
Mthembana Construction	S. Melithafa	Close family relation	Human resource advisor	-	4 250
Selane Transport	NMA. Selane	Close family relation	Traffic officer	11 540	4 500
Tlou Letebele	T. Shabalala	Owner of Tlou Letebele	EPWP employee	35 966	52 505
MC Enterprise	ML. Mthimkulu	Close family relation	Councillor	13 248	675 600
Dupas Panelbeaters and Trading	LK. Sehlabaka	Close family relation	Messenger	1 137 887	408 056
Mofuta Trading (Pty) Ltd	NS. Mofuta	Close family relation	Human resource clerk	40 278	35 574
				<b>1 247 219</b>	<b>1 314 939</b>

The amount of R408 056 for the 2020/2021 financial year with regards to Dupas Panelbeaters and Trading was not disclosed in the 2022/2021 financial year due to an error.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 52. Additional disclosures in terms of the Municipal Finance Management Act

	SALGA contributions	Audit fees	PAYE	UIF	Pension	Medical aid
<b>As at 30 June 2022</b>						
Opening balance	-	4 209 418	2 154 680	211 708	2 656 197	2 242 248
Subscription/fees	2 328 806	6 861 330	26 021 306	2 580 112	32 599 502	27 130 988
Amount paid	(2 328 806)	(6 358 183)	(25 938 341)	(2 580 087)	(32 549 074)	(27 056 429)
Credit notes	-	(1 239 805)	-	-	-	-
<b>Total</b>	<b>-</b>	<b>3 472 760</b>	<b>2 237 645</b>	<b>211 733</b>	<b>2 706 625</b>	<b>2 316 807</b>
	SALGA contributions	Audit fees	PAYE	UIF	Pension	Medical aid
<b>As at 30 June 2021</b>						
Opening balance	(4 390)	5 194 774	5 985 608	557 757	2 489 283	2 173 580
Subscription/fees	2 313 310	7 178 351	25 412 743	2 294 968	31 732 188	25 846 499
Amount paid	(2 308 920)	(7 952 245)	(29 243 671)	(2 641 017)	(31 565 274)	(25 777 831)
Credit notes	-	(211 462)	-	-	-	-
<b>Total</b>	<b>-</b>	<b>4 209 418</b>	<b>2 154 680</b>	<b>211 708</b>	<b>2 656 197</b>	<b>2 242 248</b>

### Non-compliance with the Municipal Finance Management Act

The municipality did not always pay employee's third party deduction(s) to benefit funds on time due to cash-flow constraints.

Creditors were not paid within 30 days as per the requirements of the MFMA due to cash-flow constraints and resulted in fruitless and wasteful expenditure being incurred in certain instances.

The municipality incurred irregular expenditure as a result of non-compliance with the relevant legislation governing procurement.



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 52. Additional disclosures in terms of the Municipal Finance Management Act (continued)

#### Reticulation (Distribution) losses - Electricity

The implementation of prepaid electricity meters contributed positively to the decrease in electricity losses.

The prescribed norm from National Treasury for electricity losses is estimated to be between 7% and 10%.

Estimated electricity losses suffered by the municipality for the year under review are as follows:

Estimated electricity losses	7 161 780	10 706 280
Percentage losses	7 %	12 %

#### Reticulation (Distribution) losses - Water

Estimated water losses included distribution to townships with unmetered water.

The prescribed norm from National Treasury for water losses is estimated to be between 15% and 30%.

Estimated water losses suffered by the municipality for the year under review is as follows:

Estimated water losses	12 717 711	12 098 388
Percentage losses	40 %	29 %

#### Skills development levies

Opening balance	152 973	141 907
Current year subscriptions / fee	1 905 111	1 529 734
Amount paid	(1 901 066)	(1 518 668)
	<b>157 018</b>	<b>152 973</b>

### 53. Capital commitments

Commitments in respect of capital expenditure:

#### Approved and contracted for:

Property, plant and equipment	39 452 178	89 465 723
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# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 54. Going concern

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated surplus (deficit) of R 2 660 805 999 and that the municipality's total assets exceed its liabilities by R 2 660 805 999.

In addition, the municipality had an average creditors payment period of 118 days and the municipality owed Eskom R28 779 050 (2021: R26 641 637) as at 30 June 2022, which was long overdue. These events and conditions, along with other matters set forth in note 54, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

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

### COVID-19

The coronavirus outbreak has been international news since December 2019, but the South African National Institute for Communicable Diseases only confirmed the first positive case of COVID-19 in South Africa on 5 March 2020. On the 23rd of March 2020 President Cyril Ramaphosa announced the nationwide lockdown. On 30 March 2020 the Minister of Finance issued a conditional Exemption Notice in terms of section 177(1)(b) of the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA), in order to facilitate and enable the performance of legislative responsibilities by municipalities and municipal entities during the national state of disaster.

Due to the national state of disaster, various regulatory requirements were instituted in order to ensure that the impact of the spread of the virus is limited. The impact has been devastating to the most vulnerable in our community. As far as possible the Municipality factored in the effect of the lockdown regulations on our economic environment. At this stage, it is still uncertain how long the pandemic will remain or how long the economy will take to recover from the lockdown levels.

The Municipality assessed the impact of COVID-19 pandemic by comparing the financial indicators of 2022 and 2021 as illustrated below:

Current ratio (norm - 2 : 1)	1.9	1.8
Creditors days (norm - 30 days or less)	117.78 days	143.15 days
Debtors collection rate (norm - 30 days)	310.85 days	305.31 days

When analysing the results of the ratios, it can be concluded that the COVID-19 pandemic had an adverse effect from a financial sustainability perspective. The results are not solely due to the effects of COVID-19 and subsequent lockdown regulations, but has been significantly impacted by the pandemic. These events or conditions, along with other matters set forth in note 54, indicate that a material uncertainty exists that may cast significant doubt on the municipality's ability to continue as a going concern.

### COVID-19 - Response Expenditure

The summary below indicates the total COVID-19 response expenditure for the period ending 30 June 2022 and 30 June 2021.

#### Type of expenditure

Cleaning materials	44 862	124 808
Masks, gloves and hand sanitizer	-	36 732
	<b>44 862</b>	<b>161 540</b>

#### Funding

Own revenue	44 862	161 540
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# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand		2022	2021			
<b>55. GRAP 3 adjustments</b>						
The following restatements and adjustments occurred which are set out below:						
<b>55.1 Adjustments of Statement of financial performance items</b>						
<b>2021</b>						
Note	Previously reported	Correction of error	Re-classification	Re-classification (mSCOA)	Restated	
<b>Revenue</b>						
<b>Non-exchange revenue</b>						
Property rates	20	(54 904 834)	(11 103 698)	-	(66 008 532)	
Licences or permits	28	(70 242)	-	-	(70 242)	
Transfers and subsidies	29	(403 164 146)	-	(8 076 388)	(411 240 534)	
Fines, penalties and forfeits	27	(1 084 350)	-	(20 576)	(1 104 926)	
Availability charges - Electricity		-	(181 910)	-	(181 910)	
Availability charges - Water		-	(562 239)	-	(562 239)	
Availability charges - Waste water management		-	(363 902)	-	(363 902)	
Interest on receivables	25	-	(3 474 137)	-	(3 474 137)	
Donated assets		(8 076 388)	-	8 076 388	-	
		<b>(467 299 960)</b>	<b>(15 685 886)</b>	<b>-</b>	<b>(20 576)</b>	<b>(483 006 422)</b>
<b>Exchange revenue</b>						
Service charges		(199 680 856)	(21 582 148)	-	221 263 004	-
Services charges - Electricity	21	-	-	-	(87 253 648)	(87 253 648)
Services charges - Water	21	-	-	-	(57 595 712)	(57 595 712)
Services charges - Waste water management	21	-	-	-	(33 255 288)	(33 255 288)
Services charges - Waste management	21	-	-	-	(43 169 853)	(43 169 853)
Rental	23	(1 347 653)	-	-	-	(1 347 653)
Interest on investments	24	(1 850 157)	-	-	(116 357)	(1 966 514)
Interest on receivables	25	(28 914 253)	3 474 137	-	116 357	(25 323 759)
Commission received		(840 708)	-	-	840 708	-
Dividends	26	(46 880)	-	-	-	(46 880)
Operational revenue	30	(3 574 852)	-	-	1 414 219	(2 160 633)
Sales of goods and rendering of services	22	-	-	-	(2 222 854)	(2 222 854)
		<b>(236 255 359)</b>	<b>(18 108 011)</b>	<b>-</b>	<b>20 576</b>	<b>(254 342 794)</b>
<b>Total revenue</b>		<b>(703 555 319)</b>	<b>(33 793 897)</b>	<b>-</b>	<b>-</b>	<b>(737 349 216)</b>
<b>Expenditure</b>						
Employee related cost	32	214 610 185	-	-	8 663 186	223 273 371
Remuneration of councillors	33	12 967 130	-	-	-	12 967 130
Debt impairment / write-off		111 163 711	33 793 871	-	(59 971 368)	84 986 214
Depreciation, amortisation and impairment	34	393 083 789	1 660 008	-	-	394 743 797
Finance costs	36	9 627 724	1 667 024	-	(5 360 999)	5 933 749
Bulk Purchases - Electricity	37	80 035 213	-	-	-	80 035 213
Inventory consumed	38	-	789 989	(6 888 311)	15 212 642	9 114 320
Contracted services	39	10 850 314	20 894	7 063 995	6 400 952	24 336 155
Transfers and subsidies		142 439	-	-	(90 867)	51 572
Operational costs	40	38 754 279	(66 237)	3 324 507	(15 865 754)	26 146 795
Operating leases	41	4 667 001	(89 788)	(3 500 191)	-	1 077 022
Repairs and maintenance		3 754 580	-	-	(3 754 580)	-
Loss on disposal of assets		18 819 974	-	-	(18 819 974)	-
<b>Total expenditure</b>		<b>898 476 339</b>	<b>37 775 761</b>	<b>-</b>	<b>(73 586 762)</b>	<b>862 665 338</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand					2022	2021
<b>55. GRAP 3 adjustments (continued)</b>						
<b>Gains and losses</b>						
Impairment losses on assets	35	18 136 101	(1 160 694)	-	59 971 368	76 946 775
Loss on disposal of assets and Fair value adjustment on financial assets	31	(115 759)	(6 220 000)	-	18 819 975	12 484 216
Actuarial losses		5 204 581	-	-	(5 204 581)	-
		<b>23 224 923</b>	<b>(7 380 694)</b>	<b>-</b>	<b>73 586 762</b>	<b>89 430 991</b>
<b>(Surplus) / Deficit for the year</b>		<b>218 145 943</b>	<b>(3 398 830)</b>	<b>-</b>	<b>-</b>	<b>214 747 113</b>

# Setso Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand

2022

2021

### 55. GRAP 3 adjustments (continued)

#### 55.2 Adjustments of Statement of financial position items

2021

	Note	Previously reported	Correction of error	Re-classification	Re-classification (mSCOA)	Restated
<b>Assets</b>						
<b>Current assets</b>						
Cash and cash equivalents	2	45 525 760	-	-	-	45 525 760
Receivables from exchange transactions	3	204 187 715	(1 132 066)	-	-	203 055 649
Receivables from non-exchange transactions	4	54 248 943	1 132 069	-	(9 459 699)	45 921 313
Inventories	5	2 613 228	177 003	-	-	2 790 231
Other current assets	7	-	-	-	9 459 699	9 459 699
VAT receivable	6	30 886 515	274 083	-	-	31 160 598
		<b>337 462 161</b>	<b>451 089</b>	-	-	<b>337 913 250</b>
<b>Non-current assets</b>						
Other financial assets	8	3 615 509	(2)	-	-	3 615 507
Investment property	9	83 725 336	6 220 000	(265 000)	-	89 680 336
Property, plant and equipment	10	2 595 748 879	30 090 412	265 000	-	2 626 104 291
Heritage assets	11	15 385 903	-	-	-	15 385 903
Intangible assets	12	545 252	1	-	-	545 253
		<b>2 699 020 879</b>	<b>36 310 411</b>	-	-	<b>2 735 331 290</b>
<b>Total assets</b>		<b>3 036 483 040</b>	<b>36 761 500</b>	-	-	<b>3 073 244 540</b>
<b>Net assets and liabilities</b>						
<b>Current liabilities</b>						
Finance leases	14	-	-	-	(8 387 312)	(8 387 312)
Consumer deposits	15	(3 194 033)	4	-	-	(3 194 029)
Payables from exchange transactions	16	(118 166 024)	(1 874 824)	-	-	(120 040 848)
Unspent grants	17	(55 259 611)	-	-	-	(55 259 611)
Post-retirement health care benefits	19	(3 348 000)	-	-	1 959 000	(1 389 000)
Provisions and other employee liabilities	18	-	-	-	(1 959 000)	(1 959 000)
Financial liabilities	13	(9 045 133)	-	-	8 387 312	(657 821)
		<b>(189 012 801)</b>	<b>(1 874 820)</b>	-	-	<b>(190 887 621)</b>
<b>Non-current liabilities</b>						
Finance leases	14	-	-	-	(1 627 034)	(1 627 034)
Post-retirement health care benefits		(63 585 000)	-	-	11 459 000	(52 126 000)
Provisions and other employee liabilities	18	-	(13 989 792)	-	(27 255 102)	(41 244 894)
Financial liabilities	13	(3 626 368)	(1)	-	1 627 034	(1 999 335)
Provisions		(15 796 102)	-	-	15 796 102	-
		<b>(83 007 470)</b>	<b>(13 989 793)</b>	-	-	<b>(96 997 263)</b>
<b>Total net assets</b>						
Accumulated surplus		(2 764 462 769)	(17 498 056)	-	-	(2 781 960 825)
Accumulated surplus - profit/loss movement		-	(3 398 831)	-	-	(3 398 831)
		<b>(2 764 462 769)</b>	<b>(20 896 887)</b>	-	-	<b>(2 785 359 656)</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand	2022	2021		
<b>55. GRAP 3 adjustments (continued)</b>				
<b>55.3 Adjustment of Cash flow statement items</b>				
	Note	Previously reported	Correction of error	Restated
<b>Cash flows from operating activities</b>				
<b>Receipts</b>				
Property rates		45 043 002	11 289 255	56 332 257
Sale of goods and services		91 810 948	(12 680 888)	79 130 060
Other receipts		5 971 366	(209 087)	5 762 279
Grants		404 389 382	700 000	405 089 382
Fines, penalties and forfeits		1 084 350	20 576	1 104 926
Interest		30 760 371	-	30 760 371
Dividends		46 880	-	46 880
<b>Payments</b>				
Employees		(225 885 120)	1 902 395	(223 982 725)
Suppliers		(150 106 952)	(682 404)	(150 789 356)
Finance charges		(3 579 798)	(65 766)	(3 645 564)
VAT		(18 884 534)	(274 081)	(19 158 615)
<b>Net cash from operating activities</b>		<b>180 649 895</b>	<b>-</b>	<b>180 649 895</b>
<b>Cash flows from investing activities</b>				
<b>Receipts</b>				
Proceeds on disposal of fixed and intangible assets		562 812	-	562 812
<b>Payments</b>				
Capital assets		(157 756 605)	-	(157 756 605)
<b>Net cash from investing activities</b>		<b>(157 193 793)</b>	<b>-</b>	<b>(157 193 793)</b>
<b>Cash flows from financing activities</b>				
<b>Payments</b>				
Decrease in other financial liabilities		(8 100 847)	-	(8 100 847)
<b>Net increase/(decrease) in cash</b>		<b>15 355 255</b>	<b>-</b>	<b>15 355 255</b>
Cash and cash equivalents at the beginning of the year		30 170 505	-	30 170 505
Cash and cash equivalents at the end of the year		45 525 760	-	45 525 760
<b>Net increase/(decrease) in cash</b>		<b>15 355 255</b>	<b>-</b>	<b>15 355 255</b>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 55. GRAP 3 adjustments (continued)

#### 55.4 Correction of errors

The following prior period errors adjustments occurred:

##### Error 1 - Availability charges

During the current financial year management reviewed the availability charges on consumer debtor accounts and reclassified the revenue as well as the consumer balances from availability charges to non-exchange transactions.

The effect is as follows:

##### Effect of error

Increase in receivables from non-exchange transactions	-	1 476 977
(Decrease) in receivables from exchange transactions	-	(1 476 977)
(Increase) in interest received from consumers non-exchange transactions	-	(155 966)
Decrease in interest received from consumers exchange transactions	-	155 966
Decrease in service charges	-	1 108 050
(Increase) in availability charges - electricity	-	(181 910)
(Increase) in availability charges - water	-	(562 238)
(Increase) in availability charges - waste water management	-	(363 902)
	-	-

##### Error 2 - Interest received : Property rates

During the current financial year management reviewed the interest charges on consumer debtor accounts and reclassified interest received on property rates from exchange transactions to non-exchange transactions.

The effect is as follows:

##### Effect of error

(Increase) in interest received from consumers non-exchange transactions	-	(3 318 171)
Decrease in interest received from consumers exchange transactions	-	3 318 171
	-	-

##### Error 3 - Receivable allocations

During the current financial year it was noted that the allocations for the receivables from exchange transactions and receivables from non-exchange transactions disclosure note was incorrectly allocated.

The effect is as follows:

##### Effect of error

Increase in receivables from exchange transactions - Electricity - Gross	-	197 603
(Decrease) in receivables from exchange transactions - Waste management - Gross	-	(843 134)
(Decrease) in receivables from exchange transactions - Waste water management - Gross	-	(367 219)
(Decrease) in receivables from exchange transactions - Water - Gross	-	(711 836)
Increase in receivables from exchange transactions - Other debtors - Gross	-	2 069 494
(Decrease) in receivables from non-exchange transactions - Property rates - Gross	-	(344 908)
	-	-

# Setsotho Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 55. GRAP 3 adjustments (continued)

#### Error 4 - Creditors credit notes

During the current financial year credit notes were issued for creditors incorrectly raised in the previous financial year.

The effect is as follows:

##### Effect of error

(Decrease) in VAT receivable	-	(39 604)
Decrease in payables from exchange transactions - payables	-	636 741
(Decrease) in contracted services - maintenance other equipment	-	(272 946)
(Decrease) in contracted services - safeguard and security	-	(12 958)
(Decrease) in contracted services - burial services	-	(1 800)
(Decrease) in contracted services - legal services	-	(52 213)
(Decrease) in inventory consumed	-	(190 941)
(Decrease) in operating expenditure - registrations and seminars	-	(66 279)
	<u>-</u>	<u>-</u>

#### Error 5 - Inventory

Certain inventory items were returned during the current financial year relating to inventory on year-end for the 2020/2021 financial year. The inventory balance was corrected for the 2020/2021 financial year.

The effect is as follows:

##### Effect of error

Increase in inventory	-	177 003
(Decrease) in inventory consumed	-	(177 003)
	<u>-</u>	<u>-</u>

#### Error 6 - Creditors

It was noted during the 2021/2022 financial year that certain invoices were not raised for creditors in the 2020/2021 financial year, due to disputes. These invoice were raised during the 2021/2022 financial year.

The effect is as follows:

##### Effect of error

Increase in VAT receivable	-	327 181
(Increase) in payables from exchange transactions - payables	-	(2 614 823)
Increase in contracted services - maintenance other equipment	-	6 212
Increase in contracted services - water laboratory services	-	354 600
Increase in inventory consumed	-	1 157 934
Increase in finance cost - overdue accounts	-	65 765
Decrease in accumulated surplus	-	703 131
	<u>-</u>	<u>-</u>



# Setsotho Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 55. GRAP 3 adjustments (continued)

#### Error 7 - Indigent write offs

It was noted during the 2021/2022 financial year that the indigent write offs were incorrectly offset against revenue instead of shown as bad debt written off. This was corrected.

The effect is as follows:

##### Effect of error

Decrease in service charges - electricity	-	562 558
(Increase) in service charges - water	-	(8 336 041)
(Increase) in service charges - waste water management	-	(6 382 267)
(Increase) in service charges - waste management	-	(8 534 449)
(Increase) in property rates	-	(11 103 698)
Increase in bad debt written off	-	33 793 897
		<hr/>
	-	-
		<hr/>

#### Error 8 - Provision for landfill sites rehabilitation

During the 2020/2021 financial year the provision for landfill sites rehabilitation was incorrectly calculated. The calculation was corrected during the current financial year.

The effect is as follows:

##### Effect of error:

Increase in infrastructure assets - cost - change in provision	-	12 388 533
(Increase) in provision for landfill sites liability	-	(13 989 792)
Increase in finance cost - unwinding of provision	-	1 601 259
		<hr/>
	-	-
		<hr/>

#### Error 9 - Investment property

During the 2021/2022 financial year the investment property register was reviewed and errors detected. Errors resulted from classification issues between investment property and property, plant and equipment as well as investment property that was incorrectly disposed of. These errors were corrected.

The effect is as follows:

##### Effect of error:

Increase in investment property - cost	-	5 955 000
Increase in property, plant and equipment - land cost	-	265 000
(Decrease) in loss on disposal of assets - investment property	-	(6 220 000)
		<hr/>
	-	-
		<hr/>

# Setso Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 55. GRAP 3 adjustments (continued)

#### Error 10 - Property, plant and equipment - movables assets

During the 2021/2022 financial year the property, plant and equipment movable register was reviewed and errors detected. Errors resulted from omissions as well as reclassification of leased assets for mSCOA financial statement disclosure.

These errors were corrected.

The effect is as follows:

##### Effect of error:

Property, plant and equipment - other assets - cost	-	4 056
Property, plant and equipment - other assets - accumulated depreciation	-	(2 122)
Property, plant and equipment - other assets - accumulated depreciation	-	(1 132)
Depreciation expense - property, plant and equipment	-	1 132
Accumulated surplus	-	(1 934)
Property, plant and equipment - other assets - cost	-	(547 350)
Property, plant and equipment - transport assets - cost	-	(29 586 536)
Property, plant and equipment - leased assets - cost	-	30 133 886
Property, plant and equipment - other assets - accumulated depreciation	-	343 686
Property, plant and equipment - transport assets - accumulated depreciation	-	6 349 774
Property, plant and equipment - leased assets - accumulated depreciation	-	(6 693 460)
Property, plant and equipment - other assets - depreciation	-	150 863
Property, plant and equipment - transport assets - depreciation	-	15 437 153
Property, plant and equipment - leased assets - depreciation	-	(15 588 016)
	-	-

#### Error 11 - Property, plant and equipment - immovables assets

During the 2021/2022 financial year the property, plant and equipment immovable register was reviewed and errors detected. Errors resulted from omissions as well as incorrect impairment of assets.

These errors were corrected.

The effect is as follows:

##### Effect of error:

Property, plant and equipment - infrastructure assets - cost	-	12 198 923
Property, plant and equipment - infrastructure assets - accumulated depreciation	-	(5 424 453)
Property, plant and equipment - buildings and other community assets - cost	-	15 825 664
Property, plant and equipment - buildings and other community assets - accumulated depreciation	-	(5 147 256)
Property, plant and equipment - buildings and other community assets - accumulated impairment	-	746 374
Property, plant and equipment - infrastructure assets - depreciation	-	(913 946)
Property, plant and equipment - infrastructure assets - impairment	-	1 160 694
Property, plant and equipment - buildings and other community assets - depreciation	-	(739 453)
Depreciation expense - property, plant and equipment	-	1 653 399
Impairment expense - property, plant and equipment	-	(1 160 694)
Accumulated surplus	-	(18 199 252)
Property, plant and equipment - infrastructure assets - cost	-	493 650
Property, plant and equipment - infrastructure assets - work-in-progress	-	(493 650)
Depreciation expense - property, plant and equipment	-	5 477
Property, plant and equipment - infrastructure assets - accumulated depreciation	-	(5 477)
	-	-

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 55. GRAP 3 adjustments (continued)

#### Error 12 - Operating leases

During the 2021/2022 financial year it was found that the July 2021 invoices for operating leases were raised in June 2021. This error was corrected. The effect is as follows.

#### Effect of error:

(Decrease) in operating leases expense	-	(89 788)
(Decrease) in VAT receivable	-	(13 468)
Decrease in payables from exchange transactions - other payables	-	103 256
	<u>-</u>	<u>-</u>

#### 55.5 Reclassification

The following reclassifications adjustment occurred:

##### Reclassification 1

During the current financial year the municipality implemented the mSCOA template to draft the annual financial statements, this resulted in certain reclassification of the 2020/2021 annual financial statement amounts as reflected above.

##### Reclassification 2

During the year under review expenditure items for inventory consumed as well as operating leases were reviewed for classification and the following reclassification were the result of the review.

#### Nature of reclassification

Increase in contracted services - consultants and professional services - business and advisory	-	27 100
Increase in contracted services - consultants and professional services - town planner	-	24 000
Increase in contracted services - contractors - electrical	-	101 920
Increase in contracted services - contractors - maintenance of buildings and facilities	-	15 385
Increase in contracted services - contractors - maintenance of equipment	-	6 538 050
Increase in contracted services - contractors - maintenance of unspecified assets	-	80 564
Increase in contracted services - outsourced - burial services	-	170 525
Increase in contracted services - outsourced - catering services	-	2 530
Increase in contracted services - outsourced - hygiene services	-	103 922
Increase in operational costs - communication	-	599 062
Increase in operational costs - external computer services	-	307 444
Increase in operational costs - hire charges	-	1 792 567
Increase in operational costs - printing	-	270 193
Increase in operational costs - travel and subsistence	-	398 072
(Decrease) in operational costs - wet fuel	-	(42 831)
(Decrease) in operating leases - machinery and equipment	-	(2 676 033)
Increase in operating leases - furniture and office equipment	-	239 943
(Decrease) in inventory consumed - materials and supplies	-	(6 888 312)
(Decrease) in operating leases - intangible assets	-	(764 341)
(Decrease) in operating leases - transport assets	-	(299 760)
	<u>-</u>	<u>-</u>

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 56. Financial instruments

#### 56.1 Fair value of financial instruments

The management of the municipality is of the opinion that the carrying value of Financial Assets and Financial Liabilities recorded at amortised cost in the annual financial statements approximate their fair values, except for the listed Government stock. In accordance with GRAP 104 the Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of financial position, are as follow:

		2022		2021	
		Carrying amount	Fair value / Amortised cost	Carrying amount	Fair value / Amortised cost
<b>Financial assets</b>					
<b>Fair value</b>					
Investments	8	3 673 282	3 673 282	3 615 507	3 615 507
<b>Amortised cost</b>					
Trade and other receivables from exchange transactions	3	207 910 441	207 910 441	203 055 649	203 055 649
Other current assets	7	9 546 969	9 546 969	9 459 699	9 459 699
Cash and cash equivalents	2	93 197 341	93 197 341	45 525 760	45 525 760
		<b>310 654 751</b>	<b>310 654 751</b>	<b>258 041 108</b>	<b>258 041 108</b>
<b>Total financial assets</b>		<b>314 328 033</b>	<b>314 328 033</b>	<b>261 656 615</b>	<b>261 656 615</b>
<b>Financial liabilities</b>					
<b>Amortised cost</b>					
<b>Unsecured bank facilities:</b>					
Financial liabilities and finance leases	13&14	1 265 103	1 265 103	3 626 369	3 626 369
<b>Trade and other payables:</b>					
Consumer deposits	15	3 205 324	3 205 324	3 194 029	3 194 029
Trade and other payables from exchange transactions	16	123 388 421	123 388 421	120 040 848	120 040 848
Current portion of financial liabilities and finance leases	13&14	2 361 264	2 361 264	9 045 133	9 045 133
		<b>128 955 009</b>	<b>128 955 009</b>	<b>132 280 010</b>	<b>132 280 010</b>
<b>Total financial liabilities</b>		<b>130 220 112</b>	<b>130 220 112</b>	<b>135 906 379</b>	<b>135 906 379</b>
<b>Total financial instruments</b>		<b>184 107 921</b>	<b>184 107 921</b>	<b>125 750 236</b>	<b>125 750 236</b>

The Fair Values of Financial Assets and Financial Liabilities are determined as follow:

The Fair Value of Long term liabilities is determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments.

The fair value of Other Financial Assets and Financial Liabilities were determined after considering the standard terms and conditions of agreements entered into between the municipality and other parties as well as the current payment ratio's of the municipality's debtors.

The annual financial statements include holdings in Listed Government Stock which are measured at Fair Value (Note 8). Fair Value is estimated with standard terms and conditions and traded on active liquid markets is determined with reference to quoted market prices.

#### Assumptions used in determining fair value of financial assets and financial liabilities

The table below analyses Financial Instruments carried at Fair Value at the end of the reporting period by the level of fair-value hierarchy as required by GRAP 104. The different levels are based on the extent to which quoted prices are used in the calculation of the Fair Value of the Financial Instruments.

The levels have been defined as follow:

# Setsotho Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 56. Financial instruments (continued)

#### Level 1

Fair Values are based on quoted market prices (unadjusted) in active markets for an identical instrument.

#### Level 2

Fair Values are calculated using valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using quoted market prices in active markets for similar instruments, quoted prices for identical or similar instruments in markets that are considered less than active, or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

#### Level 3

Fair Values are based on valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. Also, this category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

#### 30 June 2022

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
<b>Financial instruments at fair value:</b>				
Listed investments - Sanlam	761 911	-	-	761 911
Listed investments - OVK	-	-	1 456 020	1 456 020
<b>Total financial assets</b>	<b>761 911</b>	<b>-</b>	<b>1 456 020</b>	<b>2 217 931</b>

#### 30 June 2021

	Level 1	Level 2	Level 3	Total
<b>Financial assets</b>				
<b>Financial instruments at fair value:</b>				
Listed investments - Sanlam	884 403	-	-	884 403
Listed investments - OVK	-	-	1 297 736	1 297 736
<b>Total financial assets</b>	<b>884 403</b>	<b>-</b>	<b>1 297 736</b>	<b>2 182 139</b>

### 56.2 Capital risk management

The municipality manages its capital to ensure that the municipality will be able to continue as a going concern while delivering sustainable services to consumers through the optimisation of the debt and equity balance.

### 56.3 Financial risk management objectives

Due to largely non-trading nature of activities and the way in which they are financed, municipalities are not exposed to the degree of financial risk faced by business entities. Financial instruments play a much more limited role in creating or changing risks that would be typical of listed companies to which the IFRS mainly apply. Generally, financial assets and liabilities are generated by day-to-day operational activities and are not held to manage the risks facing the municipality in undertaking its activities.

The Department: Financial services monitors and manages the financial risks relating to the operations through internal policies and procedures. These risks include interest rate risk, credit risk and liquidity. Compliance with policies and procedures is reviewed by internal auditors on a continuous basis, and by external auditors annually. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal audit and risk management, responsible for monitoring and responding to potential risk, reports quarterly to the municipality's audit committee, an independent body that monitors the effectiveness of the internal audit function.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand 2022 2021

### 56. Financial instruments (continued)

#### 56.4 Significant accounting policies

Details of the significant Accounting Policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of Financial Asset, Financial Liability and Equity Instrument are disclosed in the Accounting Policies to the annual financial statements.

#### 56.5 Market risk

The municipality's activities expose it primarily to the financial risks of changes in interest rates (see Note 56.6 below). No formal policy exists to hedge volatilities in the interest rate market.

#### 56.6 Interest rate risk

Interest rate risk is defined as the risk that the fair value or future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest changes.

Potential concentrations of interest rate risk on financial assets consist mainly of fixed deposit investments and bank and cash balances.

The municipality is not exposed to a high level of interest rate risk on its financial liabilities. All of the municipality's interest bearing external loan liabilities, as detailed in Appendix 'A', are fixed interest rate loans. Similarly with financial assets, the municipality invests its surplus funds on call deposit interest rate deposits with banks for fixed terms not exceeding one year.

The municipality's maximum exposures to interest rates on Financial Assets and Financial Liabilities are detailed in the Credit Risk Management section of this note.

#### 56.7 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Council. The municipality manages liquidity risk by effectively managing its working capital, capital expenditure, external borrowings and cash flows. Standby credit facilities are available with the municipality's main banker to cater for any unexpected temporary shortfall in operating funds.

#### 30 June 2022

	Within 1 year	2 to 5 years	Total
<b>Maturity analysis</b>			
Financial liabilities	734 232	1 265 103	1 999 335
Finance leases	1 627 032	-	1 627 032
Payables from exchange transactions	123 388 421	-	123 388 421
	<b>125 749 685</b>	<b>1 265 103</b>	<b>127 014 788</b>

#### 30 June 2021

	Within 1 year	2 to 5 years	5 years +	Total
<b>Maturity analysis</b>				
Financial liabilities	657 821	734 232	1 265 103	2 657 156
Finance leases	8 387 312	1 627 034	-	10 014 346
Payables from exchange transactions	120 040 848	-	-	120 040 848
	<b>129 085 981</b>	<b>2 361 266</b>	<b>1 265 103</b>	<b>132 712 350</b>

The municipality expects to meet its other obligations from operating cash flows and proceeds of maturing financial assets. The municipality expects to maintain its current debt to equity ratio. This will be achieved through the annual increase in tariffs to maintain the accumulated surplus, as well as the increased use of unsecured bank loan facilities.

#### 56.8 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand	2022	2021
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### 56. Financial instruments (continued)

Potential concentrations of credit risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

The municipality manages credit risk in its borrowing and investing activities by only dealing with well established financial institutions of high credit standing, and by spreading its exposure over a range of such institutions in accordance with its approved investment policies. Credit risk relating to consumer debtors is managed in accordance with the municipality's credit control and debt collection policy. The municipality's credit exposure is spread over a large number and wide variety of consumers and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts. Additional information relating to the analysis of consumer debtors is given in the accounting policies and Note 4 to the annual financial statements.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The carrying amount of financial assets recorded in the annual financial statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follow:

Investments	8	3 673 282	3 615 507
Other current assets	7	9 546 969	9 459 699
Trade and other receivables from exchange transactions	3	207 910 441	203 055 649
Bank and cash balances	2	93 197 341	45 525 760
<b>Maximum credit and interest risk exposure</b>		<b>314 328 033</b>	<b>261 656 615</b>

### 56.9 Other price risks

The municipality is not exposed to equity price risks arising from equity investments as the municipality does not trade these investments.

# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

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Figures in Rand

2022

2021

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### 57. Segment information

#### General information

#### Identification of segments

The municipality is organised and reports to management on the basis of five major functional directorates.

The directorates are:

- Council and executive;
- Finance;
- Corporate services;
- Community services, and;
- Technical services.

Only the community services and technical services directorates have been identified as reportable segments. Management monitors the results of these units to make decisions about resource allocations and assessment of performance. Revenue and expenditure relating to these units are allocated at a transactional level. Cost relating to the governance and administration of the municipality are not allocated to these business units. Segment activities were aggregated for reporting purposes into the two reportable segments.

The executive, finance and corporate services directorates are the governance and administration units of the municipality. However, they are not reportable segments. Their results are reported as non-reportable segments to reconcile the results of the reportable segments to the total revenue and expenses of the municipality for the year under review.

The two reportable segments comprise of:

- Community services - which include sport and recreation, housing, public safety, refuse removal, street cleaning and cemeteries, and;
- Technical services - which include energy sources, water management, and waste water management.

Management does not monitor financial performance geographically and does not have reliable separate financial information for geographical areas in the municipal area.



# Setsoto Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand				2022	2021
<b>57. Segment information (continued)</b>					
<b>Segment surplus or deficit</b>					
<b>2022</b>	<b>Technical services</b>	<b>Community and social services</b>	<b>Governance &amp; Administration (Non-reportable segments)</b>	<b>Total</b>	
<b>Segment revenue</b>					
External revenue from exchange transactions	227 980 019	1 348 014	5 768 211	235 096 244	
External revenue from non-exchange transactions	205 114 046	860 770	210 945 665	416 920 481	
Interest revenue	91 999	-	38 971 940	39 063 939	
	<b>433 186 064</b>	<b>2 208 784</b>	<b>255 685 816</b>	<b>691 080 664</b>	
<b>Segment expenditure</b>	<b>Technical services</b>	<b>Community and social services</b>	<b>Governance &amp; Administration (Non-reportable segments)</b>	<b>Total</b>	
Bulk purchases	(93 222 334)	-	-	(93 222 334)	
Bad debt written off	(92 536 422)	-	(21 387 425)	(113 923 847)	
Impairment of assets	(23 595 760)	(486 919)	(3 592 753)	(27 675 432)	
Depreciation and amortisation	(77 889 144)	(35 756 657)	(146 236 468)	(259 882 269)	
Employee related costs	(71 455 694)	(33 400 987)	(119 650 548)	(224 507 229)	
Interest expense	(2 594 501)	-	(2 066 223)	(4 660 724)	
Other operational expenses	(16 446 163)	(7 314 932)	(55 130 048)	(78 891 143)	
Remuneration of councillors	-	-	(12 871 343)	(12 871 343)	
<b>Total segment expenditure</b>	<b>(377 740 018)</b>	<b>(76 959 495)</b>	<b>(360 934 808)</b>	<b>(815 634 321)</b>	
<b>Total segment revenue</b>	<b>433 186 064</b>	<b>2 208 784</b>	<b>255 685 816</b>	<b>691 080 664</b>	
<b>Surplus / (Deficit) for the year</b>	<b>55 446 046</b>	<b>(74 750 711)</b>	<b>(105 248 992)</b>	<b>(124 553 657)</b>	

# Setsotho Local Municipality

Annual Financial Statements for the year ended 30 June 2022

## Notes to the Annual Financial Statements

Figures in Rand				2022	2021
<b>57. Segment information (continued)</b>					
<b>2021</b>	<b>Technical services</b>	<b>Community and social services</b>	<b>Governance &amp; Administration (Non-reportable segments)</b>	<b>Total</b>	
<b>Segment revenue</b>					
External revenue from exchange transactions	199 114 431	1 263 633	26 674 458	227 052 522	
External revenue from non-exchange transactions	116 623 574	-	362 908 710	479 532 284	
Interest revenue	22 277 910	-	8 486 500	30 764 410	
<b>Total segment revenue</b>	<b>338 015 915</b>	<b>1 263 633</b>	<b>398 069 668</b>	<b>737 349 216</b>	
<b>Segment expenditure</b>	<b>Technical services</b>	<b>Community and social services</b>	<b>Governance &amp; Administration (Non-reportable segments)</b>	<b>Total</b>	
Bulk purchases	(80 035 213)	-	-	(80 035 213)	
Bad debt written off	(66 953 664)	-	(18 032 550)	(84 986 214)	
Impairment of assets	(69 992 769)	(1 879 878)	(5 074 128)	(76 946 775)	
Depreciation and amortisation	(330 583 345)	(30 301 731)	(33 858 721)	(394 743 797)	
Employee related costs	(68 713 222)	(5 233 832)	(149 326 317)	(223 273 371)	
Interest expense	(3 664 556)	-	(2 269 193)	(5 933 749)	
Other operational expenditure	(12 312 143)	(188 635)	(60 709 302)	(73 210 080)	
Remuneration of councillors	-	-	(12 967 130)	(12 967 130)	
<b>Total segment expenditure</b>	<b>(632 254 912)</b>	<b>(37 604 076)</b>	<b>(282 237 341)</b>	<b>(952 096 329)</b>	
<b>Total segment revenue</b>	<b>338 015 915</b>	<b>1 263 633</b>	<b>398 069 668</b>	<b>737 349 216</b>	
<b>Surplus / (Deficit) for the year</b>	<b>(294 238 997)</b>	<b>(36 340 443)</b>	<b>115 832 327</b>	<b>(214 747 113)</b>	

A measure of assets and liabilities for each reportable segment has not been presented as these amounts are not regularly provided to management.

**Setsoto Local Municipality**

**Appendix A**

June 2022

**Schedule of external loans as at 30 June 2022**

<b>Loan Number</b>	<b>Redeemable</b>	<b>Balance at Wednesday, 30 June 2021</b>	<b>Interest for the period</b>	<b>Redeemed written off during the period</b>	<b>Balance at Thursday, 30 June 2022</b>	<b>Carrying Value of Property, Plant &amp; Equip</b>	<b>Other Costs in accordance with the MFMA</b>
		<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>
<b>Development Bank of South Africa</b>							
DBSA Loan @11.36%	101389	31/12/2024	2 657 156	283 900	941 721	1 999 335	-
			<b>2 657 156</b>	<b>283 900</b>	<b>941 721</b>	<b>1 999 335</b>	-
<b>Instalment sales agreements - ABSA Bank Limited</b>							
ABSA Bank Limited at 10%	89515381	01/06/2022	217 661	11 988	229 649	-	-
ABSA Bank Limited at 10%	89514989	01/06/2022	157 182	8 657	165 839	-	-
ABSA Bank Limited at 10%	89516256	01/06/2022	327 121	18 017	345 138	-	-
ABSA Bank Limited at 10%	89515861	01/06/2022	121 486	6 691	128 177	-	-
ABSA Bank Limited at 10%	89516272	01/06/2022	327 121	18 017	345 138	-	-
ABSA Bank Limited at 10%	89515110	01/07/2022	623 956	36 631	610 155	50 432	-
ABSA Bank Limited at 10%	89514009	01/07/2022	283 049	19 195	279 365	22 879	-
ABSA Bank Limited at 10%	89514076	01/07/2022	283 049	19 195	279 365	22 879	-
ABSA Bank Limited at 10%	89516795	01/06/2022	14 933	959	15 892	-	-
ABSA Bank Limited at 10%	89516779	01/06/2022	14 933	959	15 892	-	-
ABSA Bank Limited at 10%	89517519	01/09/2022	452 793	29 212	386 879	95 126	-
ABSA Bank Limited at 10%	89512457	01/09/2022	1 011 432	74 377	873 321	212 488	-
ABSA Bank Limited at 10%	89512260	01/09/2022	453 038	33 315	391 176	95 177	-
ABSA Bank Limited at 10%	89645145	01/08/2022	666 763	41 218	607 913	100 068	-
			<b>4 954 517</b>	<b>318 431</b>	<b>4 673 899</b>	<b>599 049</b>	-
<b>Instalment sales agreement - Wesbank</b>							
Wesbank, a division of First Rand Limited	85265501996	01/08/2022	219 224	17 226	236 450	-	-
Wesbank, a division of First Rand Limited	85265447849	01/09/2022	408 078	35 980	357 410	86 648	-
Wesbank, a division of First Rand Limited	85264693609	01/09/2022	1 370 303	108 857	1 188 119	291 041	-

**Setsoto Local Municipality**

**Appendix A**

June 2022

**Schedule of external loans as at 30 June 2022**

	<b>Loan Number</b>	<b>Redeemable</b>	<b>Balance at Wednesday, 30 June 2021</b>	<b>Interest for the period</b>	<b>Redeemed written off during the period</b>	<b>Balance at Thursday, 30 June 2022</b>	<b>Carrying Value of Property, Plant &amp; Equip Rand</b>	<b>Other Costs in accordance with the MFMA Rand</b>
			<b>Rand</b>	<b>Rand</b>	<b>Rand</b>	<b>Rand</b>		
Wesbank, a division of First Rand Limited	85264694308	01/09/2022	1 370 303	108 857	1 188 119	291 041	-	-
Wesbank, a division of First Rand Limited	85266334438	01/09/2022	512 818	45 215	449 143	108 890	-	-
Wesbank, a division of First Rand Limited	85266283448	01/09/2022	512 818	45 215	449 143	108 890	-	-
Wesbank, a division of First Rand Limited	85266628441	01/09/2022	258 206	22 766	226 146	54 826	-	-
Wesbank, a division of First Rand Limited	8526537408	01/09/2022	408 078	35 980	357 410	86 648	-	-
			<b>5 059 828</b>	<b>420 096</b>	<b>4 451 940</b>	<b>1 027 984</b>	-	-
<b>Total external loans</b>								
Development Bank of South Africa			2 657 156	283 900	941 721	1 999 335	-	-
Instalment sales agreements - ABSA Bank Limited			4 954 517	318 431	4 673 899	599 049	-	-
Instalment sales agreement - Wesbank			5 059 828	420 096	4 451 940	1 027 984	-	-
			<b>12 671 501</b>	<b>1 022 427</b>	<b>10 067 560</b>	<b>3 626 368</b>	-	-