

Dihlabeng Local Municipality
Annual Financial Statements for the year ended 30 June 2021



**FINANCIAL STATEMENTS FOR
THE YEAR ENDED 30 JUNE 2021**

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

GENERAL INFORMATION

Members of the Executive Mayoral Committee:

Councillor L U Makhalema	Chairperson
Councillor M A Mokoena	MMC for community services
Councillor M St V Mofokeng	MMC for public works and rural development
Councillor D B Michaels	MMC for corporate services (Deceased May 2021)
Councillor S M Jacobs	MMC for human settlement & local economic development and tourism
Councillor T J Tseki	MMC for finance
Councillor Ms M E Sempe	MMC for IDP, performance management and monitoring
Councillor N E Mabizela	MMC for women, children, disability and vulnerable groups

Grade of Local Authority:

Grade 8

Auditor:

Auditor-General South Africa

Bankers:

ABSA Bank

Branch 502-233 Account number 4052898966

Registered Office:

Civic centre	PO Box 551	Telephone:	058-303 5732
Muller street	Bethlehem	Fax:	058-303 5076
Bethlehem	9700		

E-mail address:

info@dihlabeng.co.za

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Municipal Manager:

Mr Lekgetho Mokgathle

Chief Financial Officer:

Mr Lethola Mabula

Members of the Dihlabeng Local Municipality

<u>Ward No:</u>	<u>Councillor</u>
1	Mr T I Mofokeng
2	Mr M M Twala
3	Mr D B Michaels (Deceased May 2021)
4	Mr M D Motaung
5	Mr T J Mbambo
6	Ms J Twala
7	Ms T M Mofokeng
8	Mr T M H Mofokeng
9	Mr B F Mokoena
10	Ms C J van Niekerk
11	Mr M D Shabalala
12	Mr J M Radebe
13	Mr T J Seekane
14	Mr T J Tseki
15	Ms M E Sempe
16	Mrs S M Jacobs
17	Mrs A L Rakhothule - Mkhwanazi
18	Mrs N E Mabizela
19	Mr M St V Mofokeng
20	Mr P D Lengoabala (Deceased September 2020)

Public Representatives Councillors

Mrs L U Makhalema	Mr J K Rathebe
Ms M A Maleka	Mrs M A Mokoena
Ms M E Lekhoa	Mrs H E Mokoena
Ms M F Mabuya	Mr E T Motloung
Mr G J Roetz(Deceased August 20)	Ms N A Motaung
Mr P A Maasdorp	Mr J J Nhlapo
Mr M J Mokoena	Mr M K Mthombeni
Mr D L Xaba	Ms M V Oliphant

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Ms M A Motaung

Ms Z Nzimande

Mr A Wolmarans

W H Theunissen (November 2020)

S P Mokoena (January 2021)

Executive Mayor:

Councillor L.U. Makhalema

Speaker:

Councillor P.D. Lengoabala (Deceased September 2020)

Councillor E T Motloung (30 November 2020 to January 2021)

Councillor T J Tseki (From 09 June 2021)

Members of the Audit Committee:

Ms V C Sikaundi - Chairperson

Mr. M D Motaung - Member

Mr. N A Maqabe - Member

Nature of the entity

The municipality is established in terms of Chapter 7 of the Constitution of the Republic of South Africa.

Relevant legislation

Constitution of the Republic of South Africa

Municipal Finance Management Act (Act no 56 of 2003)

Division of Revenue Act (Act No 5 of 2012)

The Income Tax Act (Act No 28 of 1997)

Value Added Tax Act (Act No 89 of 1991)

Municipal Structures Act (Act no 117 of 1998)

Municipal Systems Act (Act no32 of 2000)

Municipal Planning and Performance Management Regulations

Water Services Act (Act no 108 of 1997)

Housing Act (Act no 107 of 1997)

Municipal Property Rates Act (Act no 6 of 2004)

Electricity Act (Act no 41 of 1987)

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Skills Development Levies Act (Act no 9 of 1999)

Employment Equity Act (Act no 55 of 1998)

Unemployment Insurance Act (Act no 30 of 1966)

Basic Conditions of Employment Act (Act no 75 of 1997)

Disaster Management Act (Act no 57 of 2002)

Municipal Electoral Act (Act no 27 of 2000)

Municipal Demarcation Act (Act no 27 of 1998)

Supply Chain Management Regulations, 2005

Collective Agreements

Infrastructure Grants

SALBC Leave Regulations

APPROVAL OF FINANCIAL STATEMENTS:

I am responsible for the preparation of these annual financial statements, which are set out on pages - 18 to 92 in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors as disclosed in Note 30 and 31 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.



Acting Municipal Manager
Lekgetho Mokgatlhe



Acting Chief Financial Officer
Lethola Mabula

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

ACCOUNTING OFFICER'S REPORT

1. INTRODUCTION

The 2020/21 financial year posed many challenges and obstacles which had to be addressed and accommodated by the limited financial and other resources.

The budget and the IDP are aligned with the vision and imperatives of national government, which are to address service delivery backlogs and the following strategic areas, were focussed on during the 2020/21 budget:

- The eradication of backlogs and investment in infrastructure for basic services and growth
- Economic growth and development that is shared and creates sustainable jobs
- Building safer, more secure and more sustainable communities
- The deepening of democracy
- Financial viability and management of resources
- A caring and effective government
- Institutional capacity and transformation

To budget for improved service delivery and then subsequently realising operational efficiency while it is also ensured that the deliverables are attained in a sustainable manner, has been a huge challenge during the 2020/21 financial year.

The challenge of addressing unlimited needs within the constraints of limited resources has necessitated a change in the way we do business to ensure that we stretch our resources to the maximum.

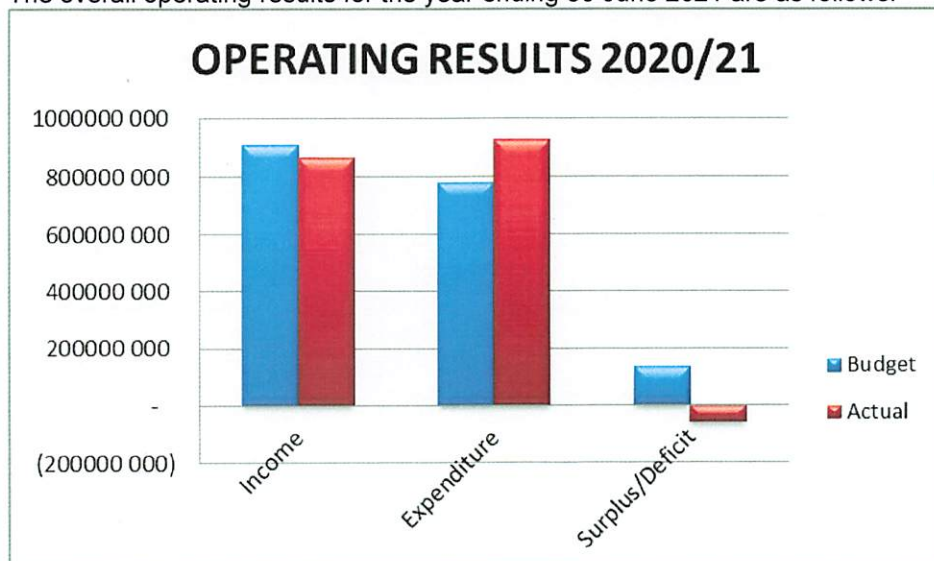
2. REVIEW OF OPERATING RESULTS

The 2020/21 budget of Dihlabeng Local Municipality was approved by Council in May 2020.

2.1 General

Details of the 2020/21 operating results and classification of revenue and expenditure are included in the Statement of Financial Performance. A graphical presentation of the operating results is shown in the graph below:

The overall operating results for the year ending 30 June 2021 are as follows:



Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Description	Original Budget 2020/21 R'000	Adjusted 2020/21 R'000	Actual 2020/21 R'000	Variance Actual / Adjusted budget %	Actual 2019/20 R'000
REVENUE					
Operating revenue for the year	878 251	909 232	866 336	5.4%	821 995
	878 251	909 232	866 336		821 995
EXPENDITURE					
Operating expenditure for the year	778 091	784 575	1 019 912	9.62%	930 424
Fair value adjustment	-	-	-		(7)
loss/ Gain on disposal of assets	-	-	(17 566)		(4 885)
Actuarial Gains / (loss)	-	-	1 342		2 472
Gain on biological assets	-	-	-		502
	784 575	784 575	1 036 136		929 922

The actual net expenditure of the Municipality reflects an increase of 9.62% while the actual revenue of the Municipality has increased by 5.4% in 2020/21

The largest increase on revenue occurred on fair value adjustment (100%), Government Grants (12%) and service charges 7%.

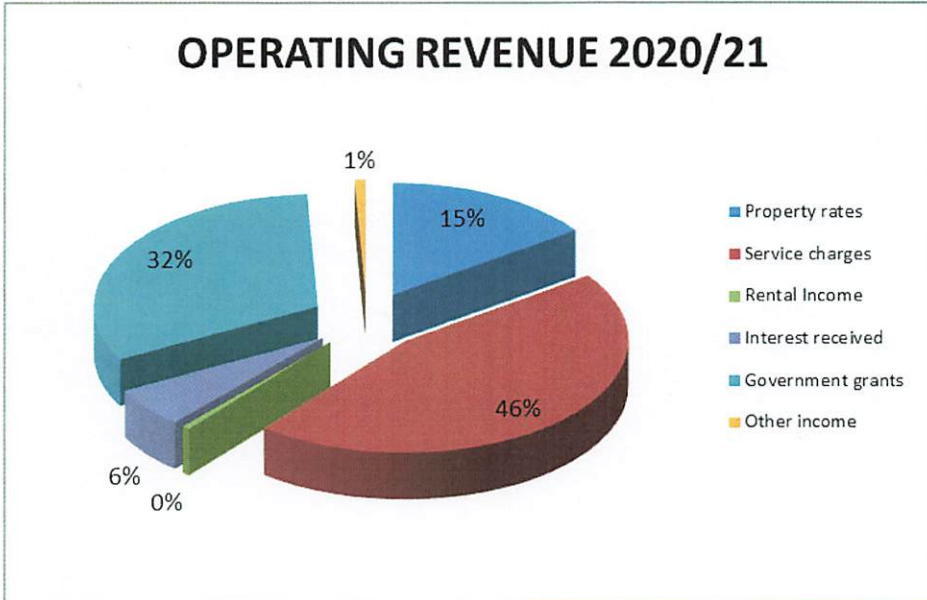
The largest increase on expenditure occurred on personnel costs (7%), Contracted Services (16%), debt impairment (17%) Bulk Purchases (11%), repairs and maintenance (2%).

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

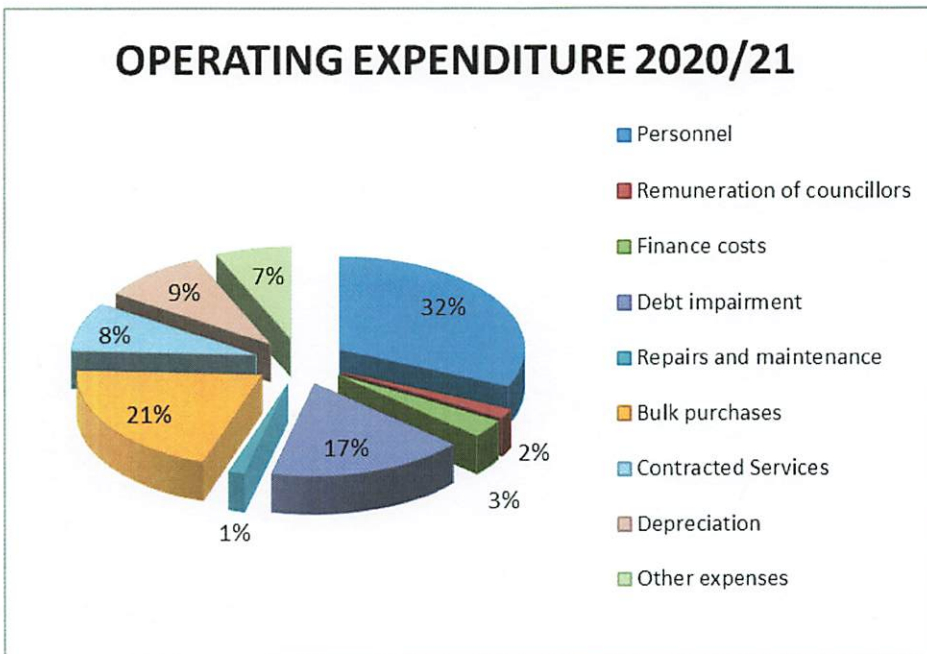
2.2 Operating Revenue

The following graph indicates a breakdown of the largest categories of revenue.



2.3 Operating expenditure

The graph below indicates the break down per main expenditure group.



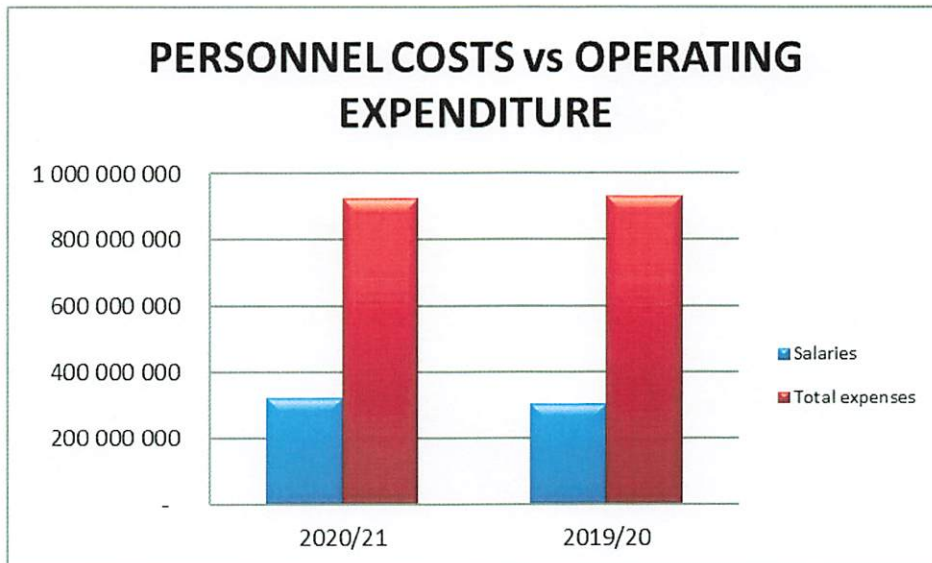
Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Remuneration

The actual expenditure on remuneration expressed as a percentage of the total expenditure shows a decrease from 32.46% in 2019/20 to 31.72% in 2020/21. These figures have a large impact on the going concern capabilities of the municipality. The total remuneration cost and the allocation of individual items in a remuneration package differ from municipality to municipality for example; certain municipalities are more contract intensive whilst others might be more labour intensive. The target for remuneration as a percentage of expenditure is 30%.

Description	2020/21 R'000	2019/20 R'000
Total operating expenditure	1 019 912	930 424
Total operating revenue	866 336	821 995
Employee remuneration	323 542	302 030
Ratio: % of total expenditure	31.72%	32.46%
Ratio: % of total revenue	37.35%	36.72%
% in/decrease in remuneration	7.12%	15,43%



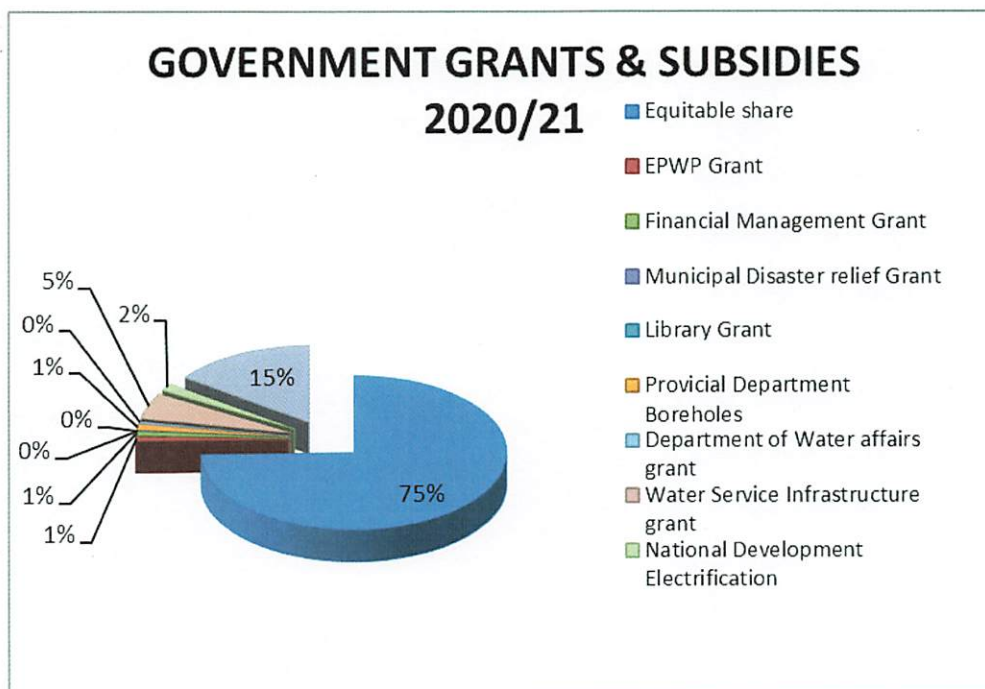
Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Government grants and subsidies

The following table and graph show the amounts received in terms of grants, contributions and subsidies from the Central Government and the Free State Provincial Government, which have been included in the total revenue:

Description	2020/21	2019/20
Equitable share	207 393 000	164 487 000
EPWP Grant	2 583 000	1 375 000
Financial Management Grant	2 500 000	2 235 000
Municipal Disaster relief Grant	-	864 000
Library Grant	-	3 500 000
Boreholes	3 000 000	-
Department of Water affairs grant	861 235	2 802 010
Water Service Infrastructure grant	15 110 000	14 423 000
National Development Electrification	4 060 000	11 013 000
MIG	41 823 000	48 648 000
	277 830 235	248 747 010



Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

2.4 Operating statement analysis

The following differences occurred with regards to the operating results for the 2020/21 financial year. Please refer to pages 22 of the financial statements.

Descriptions	Final Adjustment budget	Virements (i.t.o council approved policy)	Final budget	Actual outcomes	Unauthorized expenditure	Variances	Actual outcome as % of final budget	Reasons for variances
Property rates	157 262	-	157 262	131 942	-	-25 320	84%	Due to lower property rates billed for domestic properties than budgeted. Due to decrease in utilization of water and electricity/Over budget
Services charges	411 161	-	411 161	394 941	-	-16 220	96%	
Interest received	36 267	-	36 267	49 921	-	13 370	137%	Due to non-payment of debts by consumers
Transfers recognised – operational	260 023	30 981	291 004	277 830	-	-13 174	95%	Lower revenue collected for rendering of services than anticipated for the month. Performance is on target.
Other own revenue	13 538		13 538	18 195	-	-4 869	137%	
TOTAL REVENUE (Excluding capital transfers and contributions)	838 648	30 981	909 232	866 336	-	- 36 474	95%	

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Descriptions	Final Adjustment budget	Virements (i.t.o council approved policy)	Final budget	Actual outcomes	Unauthorized expenditure	Variances	Actual outcome as % of final budget	Reasons for variances
Employees cost	284 162	-451	283 711	323 542	39 831	-39 831	114%	Due to annual increases and under budgeting on ER and overtime which still needs to be monitored. Bloated structure due to increase in contract workers
Remuneration of councilors	17 833	-	17 833	16 950	-883	833	95%	within 10%
Debt impairment	113 368	-	113 368	175 579	62 211	--62 211	155%	Due to under budget when compared to previous financial year (2019/20: R136.7 million). The impact of COVID 19 on collection rate.
Depreciation and asset impairment	84 263	-	84 263	93 473	9 209	-9 209	111%	Due to processing of actual depreciation on assets for the month as per the asset register
Finance charges	9 752	-	9 752	32 095	22 343	-22 343	329%	Interest paid to Eskom and other creditors due to none payment within 30 days
Materials and bulk purchases	155 550	-14 290	141 260	209 844	68 584	-68 584	135%	Due to bulk purchases for electricity that are higher than the target for the period and the pressure of ESKOM to pay arrears not budgeted for in the current financial year.
Other expenditure	98 231	25 328	123 559	153 869	30 310	-30 310	157%	Overspending due to the implementation of cost containment measures and limitations on the current budget.
TOTAL EXPENDITURE	778 091	6 484	784 575	1 019 911	228 622	-235 337	130%	

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

2.5 Financial Position statement analysis

The following difference occurred with regards to the operating results for the 2020/21 financial year. Please refer to pages 18 to 23 of the financial statements.

	Approved budget	Adjustments	Final budget	Actual amounts	Variiances	Actual outcome as % of final budget	Reasons for variances
CURRENT ASSETS							
Other financial assets	210 000	-	210 000	1 390 377	(1 180 377)	662%	within 10%
Inventories	3 554 000	-	3 554 000	104 218 418	(100 664 418)	2932%	Transfer from investment property
Receivables from exchange transactions	1 187 000	-	1 187 000	14 496 932	(13 309 932)	1221%	Under Budgeting
Other receivables from non-exchange transactions	-	-	-	12 477 887	(12 477 887)		No budget
VAT Receivable	-	-	-	55 506 424	(55 506 424)		No budget
Consumer debtors	157 661 000	-	161 417 000	132 942 651	(28 523 349)	82%	Increase in provision for impairment
Trade receivables from exchange	-	-	-	19 594 792	(19 594 792)		No budget projection
Cash and cash equivalents	-	-	-	(13 188 136)	(13 188 136)		Cash flow Challenges
NON CURRENT ASSETS	162 612 000	3 805 000	166 417 000	307 844 553	141 476 553		
Investment property	-	-	-	572 452 692	(572 452 692)		Re Classification of inventory
Property, plant and equipment	3 071 687 000	20 292 000	3 091 979 000	1 750 102 862	1 341 876 138	57%	Investment property included land
Biological assets	-	-	-	4 221 720	(4 221 720)		
Heritage assets	-	-	-	48 660 000	(48 660 000)		
Intangible assets	-	400 000	400 000	1 324 925	(924 925)		Upgrade in IT infrastructure
Other financial assets	68 507 000	-	68 507 000	524 999	(67 982 001)		Over Budget
CURRENT LIABILITES			3 160 886 000	2 377 287 198	783 598 802		
Other financial liabilities	3 413 000	-	3 413 000	5 588 253	(2 175 253)	164%	Under budgeting
Finance Lease obligation	-	-	-	377 362	(377 362)		No Budget
Payables from exchange	296 393 000	-	296 393 000	806 237 708	(509 844 708))	272%	Under budgeting/increase in Creditors book
Consumer deposits	4 300 000,00	-	4 300 000	10 741 204	(6 441 204)	250%	Improved data cleansing and collections
Bank overdraft	-	-	-	14 527	(14 527)		Cash flow challenges
NON CURRENT LIABILITIES							
Retirement benefit obligations	-	-	-	23 235 000	(23 235 000)		Over provision/No budget
Finance Lease obligation	-	-	-	368 677	(368 677)		
Long service awards	-	-	-	19 641 000	(19 641 000)		No provision
Other financial liabilities	26 737 000	-	26 737 000	19 153 246	(7 583 754)	72%	DBSA loans restructuring
Provisions	30 800 000	-	30 800 000	9 918 316	(20 881 684)	32%	

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

3. DEBTORS

The following is an indication of the effectiveness of credit control measures, as well as the ability to convert debtors into cash:

Description	2020/21	2019/20
Consumer debtors	581 713 836	554 174 569
Balance on 1 July	934 841 641	810 613 024
Balance on 30 June	1 129 016 103	934 841 641
Average balance	1 031 928 872	872 727 333
Days in the financial year	365	366
Turnover: Number of days	647	576
Turnover: Number of times (levies/average balance)	0,56	0,73

From the table it is clear that, the number of days to recover increased from 576 to 647 since 2019/20. This high turnover has serious implications on the cash flow of the Municipality. A collection rate calculated on the total levies for a period compared to the total payments received during the same period is used to measure revenue recovery. The credit control by-law and the actions taken in terms of the by-law started producing better results. Measures have been put in place to recover the debts and the legal actions taken are starting to have an impact on the poor payment culture within our municipality. The increase in debtors has a serious impact on the going concern of the municipality.

4. CAPITAL EXPENDITURE AND FINANCING

The Municipality's original approved Capital Expenditure Budget for 2020/21 amounted to 63 854 235 million and was accepted by National Treasury.

Of these funds the MIG funding of R41.8 million was spent in the 2020/21 financial year and R15.9 million was spent from DWA funding and R4 million on Electrification, and R3.5 mil on Boreholes(COGTA)

Conclusion:

When comparing the actual expenditure to the budgeted expenditure the financing source of capital projects plays an important role. The funding from own sources can largely influence the following aspects:

- The raising of loans
- The cash flow of the Municipality

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

5. ACCOUNTING RATIOS

5.1 Current asset ratio

This ratio mainly involves the financial resources used in the operating cycle of a local authority. Operating capital represents the surplus of current assets over current liabilities. This is a useful indicator when determining the ability to fund operating expenditure. This ratio measures the extent to which the current liabilities are covered by the current assets. A larger coverage means a lower risk since short-term debt can be paid out of short-term assets. The following table shows the calculation of the operating capital ratio:

Description	2020/21	2019/20
CURRENT ASSETS:		
Cash	608 255	233 442
Inventory	104 218 418	103 504 785
Consumer Debtors	113 368 929	107 132 505
Receivables from exchange transactions	14 496 932	13 211 135
Receivables from non-exchange transactions	19 573 722	19 594 792
Other financial assets	1 390 377	1 263 361
Other receivables from exchange transactions	12 477 887	3 598 964
VAT Receivable	55 506 424	24 771 810
Total	321 640 944	273 310 794
CURRENT LIABILITIES:		
Creditors	806 237 708	644 524 603
Unspent conditional grants and receipts	-	-
Other financial liabilities	5 588 253	5 106 862
Taxes and transfers payable	-	-
Consumer deposits	10 741 204	9 718 544
Overdrawn cash book balance	13 796 391	2 071 772
Total	843 390 678	668 422 120
Net Operating Capital	(528 166 595)	(391 985 644)
Current asset Ratio	0,37 : 1	0,41 : 1

This is due to the fact that the current liabilities increased by 26% whilst the current assets increased with 15%. The impact in current assets can mainly be ascribed to the large provisions that had to be made towards debt impairment of R175 million, which equates to R14.6 million per month, more than our bulk electricity purchases per month. The municipality has prioritised this fact of its business to ensure the sustainability of the municipality.

The private sector sets a ratio of 2:1 as being acceptable, however a norm for local government is currently not available.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

5.2 Quick asset ratio (Acid test)

This ratio is a more accurate test of a local authority's ability to settle its short-term debt. When calculating this ratio, only assets that can be converted into cash are taken into account. Since material and stock are for the local authority's own use and are not for sale, they are not included in the calculations. The private sector sets a ratio of 1:1 as being acceptable. The figures that follow reflect the Municipality's quick asset ratio for the following years:

DESCRIPTION	2020/21	2019/20
Current assets	321 640 944	273 402 940
Less: Inventory	104 218 418	103 504 785
Total	217 422 526	169 806 006
Current liabilities	843 459 984	661 772 358
Quick asset ratio	0,26 : 1	0,23 :1

The ratio decreased due to increase in the current liabilities, serious attention will be required to increase the ratio even further in this area to ensure the going concern of the municipality.

5.3 Solvability

In this ratio, the total assets are compared to the total liabilities, and it shows the ability of the Municipality to meet its obligations in the long term. A ratio of less than one is an indication of insolvency. The following table shows the calculation of the solvency ratio:

DESCRIPTION	2020/21	2019/20
TOTAL ASSETS:		
Current assets	321 640 944	273 310 794
Non-current assets	2 377 287 198	2 412 917 018
Total	2 698 928 142	2 686 227 812
TOTAL LIABILITIES:		
Current liabilities	840 692 341	661 772 358
Plus: Long-term loans	19 153 246	24 352 731
Non-current provisions	5 966 893	6 629 611
Total	865 812 480	692 754 700
Solvability Ratio	3,10 : 1	3.84 : 1

The total assets of the Municipality increased by 0.23% in the current financial year while the total liabilities increased with 24% resulting in a decrease in the solvability ratio as stated above. Non-current assets decreased with 1.48% while external loans decreased with 21%.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

5.4 Total debt to total revenue ratio

According to credit rating companies, the benchmark for local government is a ratio of less than 50%. The ratio increased from 3.83% to 4.46% in 2020/21. The total debt increased with 22% and increase of 5% in total revenue.

DESCRIPTION	2020/21	2019/20
Total debt	38 607 196	31 531 365
Total revenue	866 264 691	822 496 614
Ratio	4.45%	3.83%

5.5 Cashbook balance plus short-term loans to total operating revenue

DESCRIPTION	2020/21	2019/20
Short term debt	19 453 950	7 178 634
Total revenue	866 264 691	822 496 614
Ratio	2.25%	0,87%

According to credit rating companies, the benchmark is a ratio of less than 5

5.6 Cash to interest coverage

This ratio indicates to what extent a local authority can generate sufficient cash from its normal activities to cover its external interest liabilities. If the ratio is less than 1:1, it may indicate future cash flow problems. The ratio for the past two financial years is as follows:

DESCRIPTION	2020/21	2019/20
Cash generated from operations (Nett cash flow)	78 449 541	77 563 453
Interest paid on external loans	32 094 621	43 778 649
Ratio	2.69 : 1	2.91 : 1

The ratio shows the decrease as the interest paid on external loans decreased with 27% and the cash generated from operations shows a 16% decrease in 2020/21.

5.7 Net debtors to total annual operating revenue

DESCRIPTIONS	2020/21	2019/20
Annual operating revenue	866 336 004	818 824 650
Debtors (excluding provision for bad debt)	152 515 270	143 537 396
Percentage	17.60%	17.53%

This ratio had decreased by 0.07%. This is a clear indication that the debt collection process of the municipality has problems and still needs to be improved even more.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

6. CHALLENGES EXPERIENCED DURING 2020/21

6.1 GOING CONCERN ISSUES

The going concern of the municipality remains an issue that management needs to address; the following areas are of concern:

- The government subsidies equate to 32% of our income. The situation increased by 2% from the 2019/20 financial year (i.e. 30%). This means that there was more reliance by the municipality on government grants.
- With reference to 5.2 (Quick asset ratio), the ratio of 0.25: 1 is still a poor given the norm of 1: 1. The recoverability of our debtors still remains a problem hence the large provision for doubtful debts.
- Our overdrawn cash book balance plus short term portion of long-term debt to operating revenue ratio (section 5.5 above) shows an increase from 0.87% (2019/20) to 2.25% (2020/21).
- Although the personnel costs are within the norm of 35%. The ratio is still too high due to the impairment of debt and the municipality should make all possible efforts to reduce it to at least 27.75% excluding impairment of debt in the next financial year to ensure that the municipality is able to meet all its financial obligations. (Refer to 2.3 for more detail)
- We draw attention to the fact that at 30 June 2021, the municipality had a loss of R164,096,001 (2020 : R107,927,037) and that the municipality's current liabilities exceed its current assets by R519,051,397 (2020 : R388,461,565). In addition, the municipality owed Eskom R542 013 593 (2020: R404 091 925), Free State Fleet Management Trading entity R62 681 782(2020 R 62 681 782, the Department of Water Affairs R 54 427 508(2020 R28 956 389) and Department of Labour R20 032 577 (2020 R17 891 495) at 30 June 2021 which is long overdue. The municipality is not able to timeously recover outstanding amounts from consumer debtors and this is resulting in the inability to pay their suppliers within the 30 day time period.

6.2 IMPLEMENTATION OF ACCOUNTING STANDARDS

The Municipality had to comply with the accounting framework as set out in paragraph 1 of the Accounting policies as contained in the Annual Financial Statements of 2020/21. This accounting framework was determined in Directive 5 issued by the Accounting Standards Board on 31 March 2009.

7. APPRECIATION

I am grateful to the Executive Mayor, Members of the Mayoral Committee, Councillors, and office of the Municipal Manager, CFO, Directors, Managers and Staff members. A special word of appreciation to everybody for the months of hard work, sacrifices and concentrated efforts during the financial year to enable my office to finalise and submit the annual financial statements within the prescribed period.



LEKGETHO MOKGATLHE
ACTING MUNICIPAL MANAGER

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020
Assets			
Current Assets			
Inventories	3	104,218,418	103,504,785
Other financial assets	4	1,390,377	1,263,361
Receivables from exchange transactions	5	14,496,932	13,211,135
Receivables from non-exchange transactions	6	12,477,887	3,598,964
VAT receivable	7	55,506,424	24,771,810
Consumer debtors from exchange transactions	8	113,368,929	107,132,505
Consumer debtors from non-exchange transactions	8	19,573,722	19,594,792
Cash and cash equivalents	9	608,255	233,442
		321,640,944	273,310,794
Non-Current Assets			
Biological assets that form part of an agricultural activity	10	4,221,720	4,650,195
Investment property	11	572,452,692	573,611,528
Property, plant and equipment	12	1,750,102,862	1,786,845,067
Intangible assets	13	1,324,925	1,042,340
Heritage assets	14	48,660,000	46,260,000
Other financial assets	4	524,999	507,885
		2,377,287,198	2,412,917,015
Total Assets		2,698,928,142	2,686,227,809
Liabilities			
Current Liabilities			
Other financial liabilities	15	5,588,253	5,106,862
Finance lease obligation	16	377,362	350,577
Payables from exchange transactions	17	806,237,708	644,524,603
Consumer deposits	18	10,741,204	9,718,544
Provisions	19	3,951,423	-
Bank overdraft	9	13,796,391	2,071,772
		840,692,341	661,772,358
Non-Current Liabilities			
Other financial liabilities	15	19,153,246	24,352,731
Finance lease obligation	16	368,677	746,124
Employee benefit obligation	20	23,235,000	20,460,000
Provisions	19	5,966,893	6,629,611
Long service leave award	21	19,641,000	18,300,000
		68,364,816	70,488,466
Total Liabilities		909,057,157	732,260,824
Net Assets		1,789,870,985	1,953,966,985
Accumulated surplus		1,789,870,985	1,953,966,985
Total Net Assets		1,789,870,985	1,953,966,985

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020
Revenue			
Revenue from exchange transactions			
Service charges	23	394,940,851	369,464,341
Rendering of services		1,576,270	1,690,763
Rental of facilities and equipment	24	5,055,307	5,416,067
Interest charges on consumer accounts	25	41,460,813	44,577,893
Licences and permits		137,300	205,626
Recoveries		6,568,875	981,552
Other income	26	3,777,290	6,331,688
Interest received - investment	27	74,057	240,927
Fair value adjustments		2,544,341	-
Actuarial gains		-	3,670,044
Gain on biological assets and agricultural produce		-	501,920
Dividends received	27	7,778	7,354
Total revenue from exchange transactions		456,142,882	433,088,175
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	28	131,942,395	126,024,542
Transfer revenue			
Government grants & subsidies	29	277,830,235	248,747,010
Public contributions and donations		-	4,918,702
Fines, penalties and forfeits		1,071,861	1,026,460
Interest charges on consumer accounts	25	8,314,470	8,691,725
Total revenue from non-exchange transactions		419,158,961	389,408,439
Total revenue	22	875,301,843	822,496,614
Expenditure			
Employee related costs	30	(323,542,119)	(302,030,270)
Remuneration of councillors	31	(16,950,028)	(17,530,732)
Depreciation, impairment and amortisation	32	(93,472,441)	(81,469,563)
Finance costs	33	(32,094,621)	(43,778,649)
Debt Impairment	34	(175,578,617)	(136,674,680)
Bulk purchases	35	(209,843,576)	(188,543,391)
Contracted services	36	(87,139,593)	(75,360,256)
Repairs and maintenance		(14,561,085)	(14,336,826)
Loss on disposal of assets and liabilities		(17,715,819)	(4,885,163)
Fair value adjustments		-	(7,114)
Actuarial losses		(1,341,889)	-
Loss on biological assets and agricultural produce		(428,475)	-
General expenses	37	(66,729,581)	(65,807,007)
Total expenditure		(1,039,397,844)	(930,423,651)
Deficit for the year		(164,096,001)	(107,927,037)

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus	Total net assets
Opening balance as previously reported	2,059,034,434	2,059,034,434
Adjustments		
Prior year adjustments (See Note 48)	2,859,588	2,859,588
Balance at 01 July 2019 as restated*	2,061,894,022	2,061,894,022
Changes in net assets		
Surplus / (deficit) for the year	(107,927,037)	(107,927,037)
Total changes	(107,927,037)	(107,927,037)
Opening balance as previously reported	1,951,107,398	1,951,107,398
Adjustments		
Prior year adjustments (See Note 48)	2,859,588	2,859,588
Balance at 01 July 2020 as restated*	1,953,966,986	1,953,966,986
Changes in net assets		
Surplus / (deficit) for the year	(164,096,001)	(164,096,001)
Total changes	(164,096,001)	(164,096,001)
Balance at 30 June 2021	1,789,870,985	1,789,870,985

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

Figures in Rand	Note(s)	2021	2020
Cash flows from operating activities			
Receipts			
Sale of goods and services		374,352,548	402,146,480
Grants		277,830,235	248,747,010
Interest income		12,926,398	9,432,133
Dividends received		7,778	7,354
		<u>665,116,959</u>	<u>660,332,977</u>
Payments			
Employee costs		(346,693,858)	(306,883,143)
Suppliers		(227,151,422)	(222,129,170)
Finance costs		(21,174,262)	(38,320,891)
		<u>(595,019,542)</u>	<u>(567,333,204)</u>
Net cash flows from operating activities	42	<u>70,097,417</u>	<u>92,999,773</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	12	(73,255,070)	(89,630,545)
Proceeds from sale of property, plant and equipment	12	254,437	(218,127)
Purchase of other intangible assets	13	(569,180)	-
Net cash flows from investing activities		<u>(73,569,813)</u>	<u>(89,848,672)</u>
Cash flows from financing activities			
Repayment of other financial liabilities		(7,459,382)	(7,459,382)
Finance lease payments		(418,028)	(435,489)
Net cash flows from financing activities		<u>(7,877,410)</u>	<u>(7,894,871)</u>
Net increase/(decrease) in cash and cash equivalents		(11,349,806)	(4,743,770)
Cash and cash equivalents at the beginning of the year		(1,838,330)	2,905,440
Cash and cash equivalents at the end of the year	9	<u>(13,188,136)</u>	<u>(1,838,330)</u>

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	411,161,000	-	411,161,000	394,940,851	(16,220,149)	Refer to Note 57
Rendering of services	-	-	-	1,576,270	1,576,270	
Rental of facilities and equipment	3,197,000	-	3,197,000	5,055,307	1,858,307	
Interest on consumer accounts	36,267,000	-	36,267,000	49,775,283	13,508,283	Refer to Note 57
Licences and permits	148,000	-	148,000	137,300	(10,700)	
Recoveries	-	-	-	6,568,875	6,568,875	
Other income	6,319,000	-	6,319,000	3,777,290	(2,541,710)	
Interest received - investment	212,000	-	212,000	74,057	(137,943)	
Dividends received	1,050,000	-	1,050,000	7,778	(1,042,222)	
Total revenue from exchange transactions	458,354,000	-	458,354,000	461,913,011	3,559,011	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	157,262,000	-	157,262,000	131,942,395	(25,319,605)	Refer to Note 57
Transfer revenue						
Government grants & subsidies	260,023,000	30,981,000	291,004,000	277,830,235	(13,173,765)	Refer to Note 57
Fines, penalties and forfeits	2,612,000	-	2,612,000	1,071,861	(1,540,139)	
Total revenue from non-exchange transactions	419,897,000	30,981,000	450,878,000	410,844,491	(40,033,509)	
Total revenue	878,251,000	30,981,000	909,232,000	872,757,502	(36,474,498)	
Expenditure						
Personnel	(284,162,000)	451,000	(283,711,000)	(323,542,119)	(39,831,119)	Refer to Note 57
Remuneration of councillors	(17,833,000)	-	(17,833,000)	(16,950,028)	882,972	
Depreciation and amortisation	(84,263,000)	-	(84,263,000)	(93,472,441)	(9,209,441)	Refer to Note 57
Finance costs	(9,752,000)	-	(9,752,000)	(32,094,621)	(22,342,621)	Refer to Note 57
Debt Impairment	(113,368,000)	-	(113,368,000)	(175,578,617)	(62,210,617)	Refer to Note 57
Bulk purchases	(155,550,000)	14,290,000	(141,260,000)	(209,843,576)	(68,583,576)	Refer to Note 57
Contracted services	(71,797,000)	(1,399,000)	(73,196,000)	(87,139,593)	(13,943,593)	Refer to Note 57
Repairs and maintenance	(14,932,000)	4,103,000	(10,829,000)	(14,561,085)	(3,732,085)	Refer to Note 57
General expenses	(26,434,000)	(23,929,000)	(50,363,000)	(66,729,581)	(16,366,581)	Refer to Note 57
Total expenditure	(778,091,000)	(6,484,000)	(784,575,000)	(1,019,911,661)	(235,336,661)	

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Operating deficit	100,160,000	24,497,000	124,657,000	(147,154,159)	(271,811,159)	
Loss on disposal of assets and liabilities	-	-	-	(17,715,819)	(17,715,819)	Refer to Note 57
Fair value adjustments	-	-	-	2,544,341	2,544,341	
Actuarial gains/losses	-	-	-	(1,341,889)	(1,341,889)	
Loss on biological assets and agricultural produce	-	-	-	(428,475)	(428,475)	
	-	-	-	(16,941,842)	(16,941,842)	
Deficit before taxation	100,160,000	24,497,000	124,657,000	(164,096,001)	(288,753,001)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	100,160,000	24,497,000	124,657,000	(164,096,001)	(288,753,001)	

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Statement of Financial Position						
Assets						
Current Assets						
Inventories	3,554,000	-	3,554,000	104,218,418	100,664,418	
Other financial assets	210,000	-	210,000	1,390,377	1,180,377	
Receivables from exchange transactions	1,187,000	-	1,187,000	14,496,932	13,309,932	
Receivables from non-exchange transactions	-	-	-	12,477,887	12,477,887	
VAT receivable	-	-	-	55,506,424	55,506,424	
Consumer debtors	157,661,000	3,805,000	161,466,000	132,942,651	(28,523,349)	
Cash and cash equivalents	-	-	-	(13,188,136)	(13,188,136)	
	162,612,000	3,805,000	166,417,000	307,844,553	141,427,553	
Non-Current Assets						
Biological assets that form part of an agricultural activity	-	-	-	4,221,720	4,221,720	
Investment property	-	-	-	572,452,692	572,452,692	
Property, plant and equipment	3,071,687,000	20,292,000	3,091,979,000	1,750,102,862	(1,341,876,138)	
Intangible assets	-	400,000	400,000	1,324,925	924,925	
Heritage assets	-	-	-	48,660,000	48,660,000	
Other financial assets	68,507,000	-	68,507,000	524,999	(67,982,001)	
	3,140,194,000	20,692,000	3,160,886,000	2,377,287,198	(783,598,802)	
Total Assets	3,302,806,000	24,497,000	3,327,303,000	2,685,131,751	(642,171,249)	
Liabilities						
Current Liabilities						
Other financial liabilities	3,413,000	-	3,413,000	5,588,253	2,175,253	
Finance lease obligation	-	-	-	377,362	377,362	
Payables from exchange transactions	296,393,000	-	296,393,000	806,237,707	509,844,707	
Consumer deposits	4,300,000	-	4,300,000	10,741,204	6,441,204	
	304,106,000	-	304,106,000	822,944,526	518,838,526	
Non-Current Liabilities						
Other financial liabilities	26,737,000	-	26,737,000	19,153,246	(7,583,754)	
Finance lease obligation	-	-	-	368,677	368,677	
Employee benefit obligation	-	-	-	23,235,000	23,235,000	
Provisions	30,800,000	-	30,800,000	9,918,316	(20,881,684)	
Long service leave award	-	-	-	19,641,000	19,641,000	
	57,537,000	-	57,537,000	72,316,239	14,779,239	
Total Liabilities	361,643,000	-	361,643,000	895,260,765	533,617,765	
Net Assets	2,941,163,000	24,497,000	2,965,660,000	1,789,870,986	(1,175,789,014)	

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	2,941,163,000	24,497,000	2,965,660,000	1,789,870,986	(1,175,789,014)	

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

Figures in Rand	Note(s)	2021	2020
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1. Presentation of Annual Financial Statements

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

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

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

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Materiality

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

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

1.4 Significant judgements and sources of estimation uncertainty

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

Other significant judgements, sources of estimation uncertainty and/or relating information, have been disclosed in the relating notes.

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

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

The impairment for 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.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

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 fair value of financial instruments that are not traded in an active market (for example, over-the counter derivatives) is determined by using valuation techniques. The municipality uses a variety of methods and makes assumptions that are based on market conditions existing at the end of each reporting period. Quoted market prices or dealer quotes for similar instruments are used for long-term debt. Other techniques, such as estimated discounted cash flows, are used to determine fair value for the remaining financial instruments. The fair value of interest rate swaps is calculated as the present value of the estimated future cash flows. The fair value of forward foreign exchange contracts is determined using quoted forward exchange rates at the end of the reporting period.

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.

Impairment testing

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

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

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 19 - Provisions.

Useful lives of waste and water network and other assets

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

Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20.

Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Allowance for doubtful debts

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

1.5 Biological assets that form part of an agricultural activity

The entity recognises biological assets that form part of an agricultural activity or agricultural produce when, and only when:

- the entity controls the asset as a result of past events;
- it is probable that future economic benefits or service potential associated with the asset will flow to the municipality; and
- the fair value or cost of the asset can be measured reliably.

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

The fair value of livestock is determined based on market prices of livestock of similar age, breed, and genetic merit.

A gain or loss arising on initial recognition of biological assets that form part of an agricultural activity or agricultural produce at fair value less costs to sell and from a change in fair value less costs to sell of biological assets that form part of an agricultural activity is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate where applicable is used to determine fair value.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

1.6 Investment property

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

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

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

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

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

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.6 Investment property (continued)

Fair value

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

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

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

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

Cost model

1.7 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.7 Property, plant and equipment (continued)

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

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

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

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

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

Item	Depreciation method	Average useful life
Buildings	Straight-line	5 - 50 years
Plant and equipment	Straight-line	2 - 37 years
Furniture and fixtures	Straight-line	5 - 22 years
Motor vehicles	Straight-line	5 - 22 years
Office equipment	Straight-line	5 - 22 years
IT Infrastructure equipment	Straight-line	5 - 22 years
Infrastructure - Electrical	Straight-line	5 - 50 years
Infrastructure - Roads	Straight-line	7 - 80 years
Infrastructure - Sewer	Straight-line	5 - 50 years
Infrastructure - Water	Straight-line	5 - 100 years
Infrastructure - Solid Waste	Straight-line	5 - 50 years
Other assets	Straight-line	5 - 22 years

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.7 Property, plant and equipment (continued)

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 12).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 12).

1.8 Intangible assets

An asset is identifiable if it either:

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

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

An intangible asset is recognised when:

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

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

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

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

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.8 Intangible assets (continued)

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

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

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

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

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

Item	Depreciation method	Average useful life
Computer software, other	Straight-line	3 years

1.9 Heritage assets

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

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

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

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

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

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

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

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

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

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

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.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Heritage assets (continued)

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

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

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

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

Impairment

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

Transfers

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

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

Derecognition

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

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

1.10 Financial instruments

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

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

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 Financial instruments (continued)

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

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

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

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

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

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

A financial asset is:

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

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

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

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

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

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

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

Consumer deposits are current financial liabilities and they are recorded in accordance with trade and other payables.

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

- derivatives;
- contingent consideration of an acquirer in a transfer of functions between entities not under common control to which the Standard of GRAP on Transfer of Functions Between Entities Not Under Common Control (GRAP 106) applies
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
 - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
 - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
 - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
 - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

1.11 Leases

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

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

Finance leases - lessee

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

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

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.11 Leases (continued)

Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

The aggregate cost of incentives is recognised as a reduction of rental revenue over the lease term on a straight-line basis.

The aggregate benefit of incentives is recognised as a reduction of rental expense over the lease term on a straight-line basis.

Income for leases is disclosed under revenue in statement of financial performance.

Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

1.12 Inventories

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

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

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

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

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

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

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

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

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

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

1.13 Impairment of cash-generating assets

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

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

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

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

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

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

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

Useful life is either:

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

Identification

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

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

Value in use

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

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

Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.13 Impairment of cash-generating assets (continued)

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of impairment loss

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

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

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

Redesignation

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

1.14 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

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

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

Useful life is either:

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

Identification

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

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

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

Value in use

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

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

Depreciated replacement cost approach

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

The replacement cost and reproduction cost of an asset is determined on an "optimised" basis. The rationale is that the municipality would not replace or reproduce the asset with a like asset if the asset to be replaced or reproduced is an 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.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.15 Employee benefits

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

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.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

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

Multi-employer plans and/or State plans and/or Composite social security programmes

The entity classifies a multi-employer plan and/or state plans and/or composite social security programmes as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

Where a plan is a defined contribution plan, the entity accounts for in the same way as for any other defined contribution plan.

Where a plan is a defined benefit plan, the entity account for its proportionate share of the defined benefit obligation, plan assets and cost associated with the plan in the same way as for any other defined benefit plan.

When sufficient information is not available to use defined benefit accounting for a plan, that is a defined benefit plan, the entity account for the plan as if it was a defined contribution plan.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

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

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an 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 contribution in the cost of an asset.

Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the reporting period in which the employees render the related service, they are discounted. The rate used to discount reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the obligation.

Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

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

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.15 Employee benefits (continued)

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

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

Other post retirement obligations

The municipality provides post-retirement health care benefits, housing subsidies and gratuities upon retirement to some retirees.

The entitlement to post-retirement health care benefits is based on the employee remaining in service up to retirement age and the completion of a minimum service period. The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations. The municipality also provides a gratuity and housing subsidy on retirement to certain employees. An annual charge to income is made to cover both these liabilities.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

Long service award

A long service award is granted to municipal employees after the completion of fixed periods of continuous service with the municipality. The said reward comprises a certain number of accumulated vacation leave days and a fixed percentage of his or her basic salary applicable at the time the award become due.

The provision represents an estimate of the award to which employees in the service of the municipality at 30 June 2021 may become entitled to in future, based on actuarial valuation at that date.

1.16 Provisions and contingencies

Provisions are recognised when:

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

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

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

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.16 Provisions and contingencies (continued)

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

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

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

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

A constructive obligation to restructure arises only when an entity:

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

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

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 45. A brief description of the nature of each class of contingent liability should be provided and where possible:

- an estimate of its financial effect,
- an indication of the uncertainties relating to the amount or timing of any outflow; and
- the possibility of any reimbursements.

1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

1.18 Revenue from exchange transactions

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

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

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

Measurement

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.18 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

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

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

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

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

Interest, royalties and dividends

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

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

Interest is recognised 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.

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

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

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

1.19 Revenue from non-exchange transactions

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

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

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.

- Public Office-Bearers Act, 1998 (Act No. 20 of 1998), or
- (d) 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".

National Treasury MFMA Circular No 68 of June 2019 which was issued in terms of sections 76(1) to 76(4) of the MFMA requires the following:

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

Receivables that arise from statutory (non-contractual) arrangements are initially measured in accordance with this accounting policy, as well as the accounting policy on Statutory Receivables. The entity applies the accounting policy on Statutory Receivables for the subsequent measurement, derecognition, presentation and disclosure of statutory receivables.

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.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.19 Revenue from non-exchange transactions (continued)

Fines

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

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

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

1.20 Investment income

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

1.21 Borrowing costs

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

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

1.22 Comparative figures

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

1.23 Unauthorised expenditure

Unauthorised expenditure means:

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

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

1.24 Fruitless and wasteful expenditure

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

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

1.25 Irregular expenditure

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

- (a) 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
- (b) 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 or
- (c) 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
- (d) 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".

National Treasury MFMA Circular No 68 of June 2019 which was issued in terms of sections 76(1) to 76(4) of the MFMA requires the following:

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.25 Irregular expenditure (continued)

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

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

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

Irregular expenditure 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.

1.26 Budget information

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

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

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

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

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

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

1.27 Related parties

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

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

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

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

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

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

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.27 Related parties (continued)

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

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

1.28 Events after reporting date

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

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

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

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

1.29 Living and non-living resources

Living resources are those resources that undergo biological transformation.

Non-living resources are those resources, other than living resources, that occur naturally and have not been extracted.

Agricultural activity is the management by an municipality of the biological transformation and harvest of biological assets for:

- (a) sale;
- (b) distribution at no charge or for a nominal charge; or
- (c) conversion into agriculture produce or into additional biological assets for sale or distribution at no charge or for a nominal charge.

A bearer plant is a living plant that:

- (a) is used in the production or supply of agricultural produce;
- (b) is expected to bear produce for more than one period; and
- (c) has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales.

Biological transformation (for purposes of this Standard) comprises the processes of growth, degeneration, production, and procreation that cause qualitative or quantitative changes in a living resource.

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

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

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

Depreciable amount is the cost of an asset, or other amount substituted for cost, less its residual value.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.29 Living and non-living resources (continued)

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.

Group of resources means a grouping of living or non-living resources of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the annual financial statements.

The residual value of an asset is the estimated amount that an municipality would currently obtain from disposal of the asset, after deducting the estimated costs of disposal, if the asset was already of the age and in the condition expected at the end of its useful life.

Useful life is the period over which an asset is expected to be available for use by an municipality, or the number of production or similar units expected to be obtained from the asset by an municipality.

Recognition

Non-living resources, other than land, are not recognised as assets. Required information are disclosed in the notes to the annual financial statements.

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

Where the municipality is required in terms of legislation or similar means to manage a living resource, but it does not meet the definition of an asset because control of the resource cannot be demonstrated, relevant information are disclosed in the notes to the annual financial statements.

Where the municipality holds a living resource that meets the definition of an asset, but which does not meet the recognition criteria, relevant information are disclosed in the notes to the annual financial statements. When the information about the cost or fair value of the living resource becomes available, the municipality recognise, from that date, the living resource and apply the measurement principles.

Measurement at recognition

A living resource that qualifies for recognition as an asset is measured at its cost.

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

The cost of a living resource comprises its purchase price, including import duties and non-refundable purchase taxes, and any costs directly attributable to bringing the living resource to the location and condition necessary for it to be capable of operating in the manner intended by management.

Measurement after recognition

Revaluation model

After recognition as an asset, a group of living resources, whose fair value can be measured reliably, are carried at a revalued amount, which is its fair value at the date of the revaluation less any accumulated depreciation and accumulated impairment losses. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

If a living resource is revalued, the entire group of living resources to which that resource belongs, are revalued.

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

If the carrying amount of a living resource is decreased as a result of a revaluation, the decrease is recognised in surplus or deficit. However, the decrease is debited directly in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that living resource. The decrease recognised directly in net assets reduces the amount accumulated in net assets under the heading revaluation surplus.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.29 Living and non-living resources (continued)

If the fair value of a living resource can no longer be determined because market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable, the carrying amount of the living resource is its revalued amount as at the date of the last revaluation by reference to market-determined prices or values that were determined based on alternative estimates, less any subsequent depreciation and subsequent impairment losses. The municipality measures the living resource using the cost model until the fair value of the living resource becomes available. The municipality measures from that date the living resource at its fair value.

Depreciation

Living resources are depreciated and the depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset, where appropriate.

The depreciable amount of a living resource is allocated on a systematic basis over its useful life.

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

In assessing whether there is any indication that the expected useful life of the living resource has changed, the municipality considers the following indications:

- (a) The use of the living resource has changed, because of the following:
- The municipality has changed the manner in which The living resource is used.
 - The municipality has made a decision to dispose of the living resource in a future reporting period(s) such that this decision changes the expected period over which the living resource will be used.
 - Legislation, government policy or similar means have been amended or implemented during the reporting period that have, or will, change the use of the living resource.
 - The living resource was idle or retired from use during the reporting period.
- (b) The living resource is approaching the end of its previously expected useful life.
- (c) There is evidence that the condition of the living resource improved or declined based on assessments undertaken during the reporting period.
- (d) The living resource is assessed as being impaired.

In assessing whether there is any indication that the expected residual value of the living resource has changed, the municipality considers whether there has been any change in the expected timing of disposal of the living resource, as well as any relevant indicators as noted above.

The depreciation method used reflects the pattern in which the future economic benefits or service potential of the living resource is expected to be consumed by the entity.

The depreciation method applied to a living resource is reviewed at least at each reporting date and, if there has been a significant change in the expected pattern of consumption of the future economic benefits or service potential embodied in the living resource, the method is changed to reflect the changed pattern. Such a change is accounted for as a change in an accounting estimate.

Item	Depreciation method	Average useful life
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Impairment

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

Compensation from third parties for living resources that have been impaired, lost or given up, is included in surplus or deficit when the compensation becomes receivable.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.29 Living and non-living resources (continued)

Transfers

Transfers from living resources are made when the particular asset no longer meets the definition of a living resource and/or is no longer within the scope of this accounting policy.

Transfers to living resources are made when the asset meets the definition of a living resource.

Derecognition

The carrying amount of a living resource 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 a living resource is included in surplus or deficit when the item is derecognised.

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

2. New standards and interpretations

2.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• GRAP 104 (amended): Financial Instruments	01 April 2009	Unlikely there will be a material impact
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2009	Unlikely there will be a material impact
• Directive 7 (revised): The Application of Deemed Cost	01 April 2021	Unlikely there will be a material impact
• GRAP 108: Statutory Receivables	01 April 2021	Unlikely there will be a material impact
• GRAP 109: Accounting by Principals and Agents	01 April 2021	Unlikely there will be a material impact

3. Inventories

Consumable stores	695,127	500,122
Water for distribution	498,562	327,810
Unsold Properties Held for Resale	102,339,255	102,339,255
Fuel (Diesel, Petrol)	313,916	259,773
Water chemicals	371,558	77,825
	104,218,418	103,504,785

Inventories recognised as an expense during the year 17,598,509 11,551,471

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
4. Other financial assets		
Designated at fair value		
Listed shares	255,852	245,721
4 169 shares in Sanlam @ R61.37 (2020 : R58.94)		
Unlisted shares	269,147	262,164
8 662 shares in Oos Vrystaat Kaap Operations Ltd @ R16.50 (2020 : R15.85)		
9 016 shares in Oos Vrystaat Kaap Holdings Ltd @ R14.00 (2020 : R13.85)		
Sanlam short term deposits	1,164,795	1,107,085
The short term deposit at Sanlam is fixed and matures at a future date.		
ABSA short term deposit	225,582	156,276
The short term deposit at ABSA is fixed and matures at a future date.		
	1,915,376	1,771,246
Non-current assets		
Designated at fair value	524,999	507,885
Current assets		
Designated at fair value	1,390,377	1,263,361
5. Receivables from exchange transactions		
Unbilled consumption to trade debtors	11,347,116	10,177,621
Pre-paid electricity from third party vendors	2,366,782	2,170,312
Sale of property debtors	783,034	863,202
	14,496,932	13,211,135
6. Receivables from non-exchange transactions		
Other receivables from non-exchange revenue	12,254,680	3,373,669
Post office and petrol deposits	170,000	170,000
Unpaid traffic fines	62,596,637	61,670,407
Provision for traffic fines not recoverable	(62,543,430)	(61,615,112)
	12,477,887	3,598,964
7. VAT receivable		
VAT accrued on accounts receivable	(9,105,105)	(7,132,070)
VAT accrued on accounts payable	65,266,093	44,553,244
VAT payable to / (refundable from) SARS	(654,564)	(12,649,364)
	55,506,424	24,771,810
8. Consumer debtors from exchange and non-exchange transactions		
Gross balances		
Consumer debtors from non-exchange transactions		
Rates	166,229,932	144,546,817
Electricity	51,766,995	36,389,725
Water	361,805,425	300,000,583
Sewerage	218,620,504	179,830,174
Refuse	276,291,708	224,820,902
Rentals, advertising and sundry charges	54,301,539	49,253,440
	1,129,016,103	934,841,641

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
8. Consumer debtors from exchange and non-exchange transactions (continued)		
Less: Allowance for impairment		
Consumer debtors from non-exchange transactions		
Rates	(146,656,210)	(124,952,025)
Electricity	(45,671,385)	(31,456,727)
Water	(319,202,514)	(259,332,452)
Sewerage	(192,877,744)	(155,452,363)
Refuse	(243,758,114)	(194,344,141)
Rentals, advertising and sundry charges	(47,907,485)	(42,576,636)
	(996,073,452)	(808,114,344)
Net balance		
Consumer debtors from non-exchange transactions		
Rates	19,573,722	19,594,792
Electricity	6,095,610	4,932,998
Water	42,602,911	40,668,131
Sewerage	25,742,760	24,377,811
Refuse	32,533,594	30,476,761
Rentals, advertising and sundry charges	6,394,054	6,676,804
	132,942,651	126,727,297
Consumer debtors from non-exchange transactions		
Rates		
Current (0 -30 days)	9,356,508	10,883,128
31 - 60 days	4,350,357	4,745,909
61 - 90 days	3,721,125	3,925,935
91 - 120 days	3,498,433	3,564,233
121 - 365 days	28,742,324	26,245,706
> 365 days	116,561,185	95,181,906
Less: Debt impairment	(146,656,210)	(124,952,025)
	19,573,722	19,594,792
Consumer debtors from exchange transactions		
Electricity		
Current (0 -30 days)	11,028,545	10,242,300
31 - 60 days	4,162,420	4,114,356
61 - 90 days	3,567,183	2,030,415
91 - 120 days	2,914,212	1,518,759
121 - 365 days	13,498,536	5,823,745
> 365 days	16,596,099	12,660,150
Less: Debt impairment	(45,671,385)	(31,456,727)
	6,095,610	4,932,998
Water		
Current (0 -30 days)	10,534,887	6,006,973
31 - 60 days	6,474,701	6,427,038
61 - 90 days	6,504,081	4,675,600
91 - 120 days	6,050,983	5,084,671
121 - 365 days	48,826,450	42,200,117
> 365 days	283,414,323	235,606,184
Less: Debt impairment	(319,202,514)	(259,332,452)
	42,602,911	40,668,131

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
8. Consumer debtors from exchange and non-exchange transactions (continued)		
Sewerage		
Current (0 -30 days)	5,250,559	4,599,021
31 - 60 days	4,140,063	3,507,176
61 - 90 days	3,925,501	3,286,094
91 - 120 days	3,844,530	3,223,807
121 - 365 days	32,375,497	26,545,487
> 365 days	169,084,355	138,668,589
Less: Debt impairment	(192,877,745)	(155,452,363)
	25,742,760	24,377,811
Refuse		
Current (0 -30 days)	5,760,165	4,693,188
31 - 60 days	4,997,634	3,991,228
61 - 90 days	4,874,912	3,861,246
91 - 120 days	4,852,289	3,867,831
121 - 365 days	41,369,782	33,190,227
> 365 days	214,436,926	175,217,182
Less: Debt impairment	(243,758,114)	(194,344,141)
	32,533,594	30,476,761
Rental, advertising and sundry charges		
Current (0 -30 days)	978,685	865,281
31 - 60 days	610,888	633,944
61 - 90 days	534,645	503,438
91 - 120 days	512,048	648,074
121 - 365 days	4,609,826	5,404,254
> 365 days	47,055,446	41,198,449
Less: Debt impairment	(47,907,484)	(42,576,636)
	6,394,054	6,676,804
Summary of debtors by customer classification		
Consumers		
Current (0 -30 days)	39,164,878	32,419,062
31 - 60 days	21,685,265	20,912,916
61 - 90 days	20,202,740	16,555,527
91 - 120 days	19,198,635	16,369,740
121 - 365 days	140,292,375	117,790,231
> 365 days	821,313,604	677,823,948
	1,061,857,497	881,871,424
Less: Allowance for impairment	(996,073,453)	(808,114,346)
	65,784,044	73,757,078
National and provincial government		
Current (0 -30 days)	3,744,472	4,870,830
31 - 60 days	3,050,797	2,506,735
61 - 90 days	2,924,707	1,727,203
91 - 120 days	2,473,859	1,537,634
121 - 365 days	15,672,914	8,399,731
> 365 days	39,291,857	33,928,086
	67,158,606	52,970,219

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
8. Consumer debtors from exchange and non-exchange transactions (continued)		
Total		
Current (0 -30 days)	42,909,350	37,289,892
31 - 60 days	24,736,063	23,419,651
61 - 90 days	23,127,447	18,282,730
91 - 120 days	21,672,494	17,907,374
121 - 365 days	155,965,289	126,189,961
> 365 days	860,605,460	711,752,035
	1,129,016,103	934,841,643
Less: Allowance for impairment	(996,073,452)	(808,114,346)
	132,942,651	126,727,297
Less: Allowance for impairment		
Current (0 -30 days)	(8,567,912)	(10,870,859)
31 - 60 days	(7,388,922)	(5,707,991)
61 - 90 days	(8,983,894)	(7,028,116)
91 - 120 days	(10,205,726)	(9,813,885)
121 - 365 days	(128,492,421)	(10,512,973)
> 365 days	(832,434,577)	(764,180,520)
	(996,073,452)	(808,114,344)
Total debtor past due but not impaired		
Current (0 -30 days)	34,341,438	26,419,033
31 - 60 days	16,058,756	17,711,659
61 - 90 days	12,832,218	11,254,613
91 - 120 days	9,283,095	8,093,489
121 - 365 days	21,135,287	29,320,416
> 365 days	39,291,857	33,928,087
	132,942,651	126,727,297
Reconciliation of allowance for impairment		
Balance at beginning of the year	(808,114,344)	(705,447,289)
Contributions to allowance	(187,959,108)	(102,667,055)
	(996,073,452)	(808,114,344)
Consumer debtors impaired		
As of 30 June 2021, consumer debtors of R996,073,453 (2020: R808,114,346) were impaired and provided for.		
The amount of the provision was R187,959,107 as of 30 June 2021 (2020: R102,667,054).		
9. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	233,442	233,442
Bank balances	(13,421,578)	(2,071,772)
	(13,188,136)	(1,838,330)
Current assets	608,255	233,442
Current liabilities	(13,796,391)	(2,071,772)
	(13,188,136)	(1,838,330)

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

9. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
ABSA Bank - Cheque account (Primary) - 405-289-8966	5,838,458	2,618,984	3,614,763	(13,796,391)	(2,057,277)	2,714,800
ABSA Bank - Cheque account (Project) - 100-001-0223	200,016	934	(914)	174,906	(14,527)	(26,024)
ABSA Bank - Cheque account - 40-8862-1820	200,007	252	222	199,907	32	222
Total	6,238,481	2,620,170	3,614,071	(13,421,578)	(2,071,772)	2,688,998

10. Biological assets that form part of an agricultural activity

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game stock	4,221,720	-	4,221,720	4,650,195	-	4,650,195

Reconciliation of biological assets that form part of an agricultural activity - 2021

	Opening balance	Gains or losses arising from changes in fair value	Total
Game stock	4,650,195	(428,475)	4,221,720

Reconciliation of biological assets that form part of an agricultural activity - 2020

	Opening balance	Gains or losses arising from changes in fair value	Total
Game stock	4,148,275	501,920	4,650,195

Non-financial information

Quantities of each biological asset

Game stock	2,149	2,315
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A vehicle based-count were performed by the Department of Economic, Small Business development, tourism and environmental affairs of the Free State (DESTEA) and the Community Services department on 22 June 2021 and the actual number counted were used. The Department of Economic, Small Business development, tourism and environmental affairs of the Free State (DESTEA) normally assists the municipality in managing the Wolhuterskop Private Nature Reserve by giving a report indicating which animals should be removed and / or culled during the next financial year.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

11. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	572,452,692	-	572,452,692	573,611,528	-	573,611,528

Reconciliation of investment property - 2021

	Opening balance	Disposals	Total
Investment property	573,611,528	(1,158,836)	572,452,692

Reconciliation of investment property - 2020

	Opening balance	Total
Investment property	573,611,528	573,611,528

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

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

12. Property, plant and equipment

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Community buildings	257,686,569	(96,164,294)	161,522,275	237,761,505	(131,906,410)	105,855,095
Furniture and fittings	7,744,701	(5,711,812)	2,032,889	7,322,727	(5,012,229)	2,310,498
Infrastructure - Electrical	312,949,696	(151,534,625)	161,415,071	234,150,731	(108,721,536)	125,429,195
Infrastructure - Roads	1,027,245,646	(599,815,761)	427,429,885	995,618,814	(559,586,217)	436,032,597
Infrastructure - Sewer	481,387,682	(177,268,320)	304,119,362	525,196,010	(211,208,238)	313,987,772
Infrastructure - Solid waste	17,276,418	(8,702,588)	8,573,830	18,240,349	(9,909,351)	8,330,998
Infrastructure - Storm water	88,198,306	(46,755,844)	41,442,462	88,198,306	(45,657,313)	42,540,993
Infrastructure - Water	624,597,715	(214,089,792)	410,507,923	657,423,223	(204,811,217)	452,612,006
Motor vehicles	27,203,408	(18,977,083)	8,226,325	26,374,086	(16,308,988)	10,065,098
Office equipment	10,428,626	(5,926,159)	4,502,467	8,169,667	(4,936,888)	3,232,779
Operational buildings	238,893,505	(34,767,555)	204,125,950	274,921,596	(6,847,535)	268,074,061
Plant and equipment	9,341,438	(6,413,247)	2,928,191	6,091,209	(3,830,024)	2,261,185
Railways	48,921,029	(35,644,797)	13,276,232	48,921,029	(32,808,239)	16,112,790
Total	3,151,874,739	(1,401,771,877)	1,750,102,862	3,128,389,252	(1,341,544,185)	1,786,845,067

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Disposals / write-offs	Classification Adjustment	Movement in WIP and other changes	Depreciation	Impairment loss	Total
Community buildings	105,855,095	10,503,686	-	51,007,162	-	(5,843,668)	-	161,522,275
Furniture and fittings	2,310,498	577,192	(151)	(143,299)	-	(711,351)	-	2,032,889
Infrastructure - Electrical	125,429,196	13,576,251	(1,309,063)	31,812,527	-	(8,093,840)	-	161,415,071
Infrastructure - Roads	436,032,597	21,618,906	-	4,016,834	-	(31,758,840)	(2,479,612)	427,429,885
Infrastructure - Sewer	313,987,772	4,834,650	(15,150,156)	(2,736,250)	14,870,826	(11,687,480)	-	304,119,362
Infrastructure - Solid waste	8,330,998	1,566,577	-	(887,265)	-	(436,480)	-	8,573,830
Infrastructure - Storm water	42,540,993	-	-	-	-	(1,098,531)	-	41,442,462
Infrastructure - Water	452,612,005	17,436,000	-	(21,630,741)	(14,870,826)	(13,508,728)	(9,529,787)	410,507,923
Motor vehicles	10,065,098	169,351	-	-	-	(2,008,124)	-	8,226,325
Office equipment	3,232,779	2,463,116	(338,483)	143,299	-	(998,244)	-	4,502,467
Operational buildings	268,074,061	-	(11,867)	(62,556,657)	-	(1,379,587)	-	204,125,950
Plant and equipment	2,261,185	509,341	(1,700)	974,390	-	(815,025)	-	2,928,191
Railways	16,112,790	-	-	-	-	(2,836,558)	-	13,276,232
	1,786,845,067	73,255,070	(16,811,420)	-	-	(81,176,456)	(12,009,399)	1,750,102,862

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals / write-offs	Transfers received	Transfers and movement in WIP	Depreciation	Total
Community buildings	135,842,172	-	-	-	(22,350,880)	(7,636,197)	105,855,095
Furniture and fittings	1,549,053	535,881	(68,647)	-	946,930	(652,719)	2,310,498
IT infrastructure equipment	-	-	(45,704)	-	45,723	(19)	-
Infrastructure - Electrical	113,154,540	16,891,372	(206,087)	-	(3,095)	(4,407,535)	125,429,195
Infrastructure - Roads	447,157,138	3,853,834	(80,260)	26,544,716	(10,780,708)	(30,662,123)	436,032,597
Infrastructure - Sewer	284,945,002	32,286,624	-	-	8,214,247	(11,458,101)	313,987,772
Infrastructure - Solid waste	8,858,439	-	-	-	-	(527,441)	8,330,998
Infrastructure - Storm water	60,107,621	-	-	(26,544,716)	10,078,469	(1,100,381)	42,540,993
Infrastructure - Water	444,567,889	33,335,209	-	-	(10,349,819)	(14,941,273)	452,612,006
Land owned	213,557,384	-	-	(213,557,384)	-	-	-
Motor vehicles	5,212,272	4,876,803	61,503	-	2,562,677	(2,648,157)	10,065,098
Office equipment	3,967,508	109,438	(235,914)	-	318,022	(926,275)	3,232,779
Operational buildings	35,955,909	-	-	213,557,384	21,317,416	(2,756,648)	268,074,061
Other property, plant and equipment	82,613	-	-	-	(82,613)	-	-
Plant and equipment	4,579,468	2,461,404	(90,460)	-	(3,917,837)	(771,390)	2,261,185
Railways	18,949,348	-	-	-	-	(2,836,558)	16,112,790
	1,778,486,356	94,350,565	(665,569)	-	(4,001,468)	(81,324,817)	1,786,845,067

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
12. Property, plant and equipment (continued)		
Property, plant and equipment in the process of being constructed or developed		
Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected		
High mast lights in Bohlokong	3,738,400	3,738,400
Correction of quality of work done by contractors and Eskom took time to energize these lights.		
	3,738,400	3,738,400
Carrying value of property, plant and equipment where construction or development has been halted either during the current or previous reporting period(s)		
Road and stormwater of 1.4km in Fateng-Tse-Ntsho	3,198,720	3,198,720
Project in design stage. Currently waiting on funding.		
No impairment losses have been recognised in relation to these assets.		
Installation of 15 High mast lights in 5 towns	7,908,045	7,908,045
This project is waiting for electrification by Eskom.		
No impairment losses have been recognised in relation to these assets.		
Upgrading of Clarens Water Treatment Works	-	9,529,787
This project was stopped in 2015 and currently there is court proceedings underway.		
Impairment losses have been recognised in relation to these assets.		
Construction of pipeline between Bethlehem and Fouriesburg	5,809,426	5,809,426
Project in design stage waiting for funding from WSIG and provincial department. The funding is being expected in the beginning of July 2020.		
No impairment losses have been recognised in relation to these assets.		
	16,916,191	26,445,978

Reconciliation of Work-in-Progress 2021

	Opening balance	Additions	Completed	Closing Balance
Community buildings	-	2,400,001	-	2,400,001
Infrastructure - Electrical	34,048,432	13,189,232	(14,313,678)	32,923,986
Infrastructure - Roads	-	21,618,906	-	21,618,906
Infrastructure - Sewer	20,729,508	127,725	(11,395,255)	9,461,978
Infrastructure - Solid waste	-	1,566,576	-	1,566,576
Infrastructure - Storm water	3,311,238	-	-	3,311,238
Infrastructure - Water	31,402,530	11,721,846	(21,203,846)	21,920,530
	89,491,708	50,624,286	(46,912,779)	93,203,215

Reconciliation of Work-in-Progress 2020

	Opening balance	Additions	Completed / written off	Closing balance
Community buildings	1,926,981	-	(1,926,981)	-
Infrastructure - Electrical	22,992,410	11,259,087	(203,065)	34,048,432
Infrastructure - Roads	112,518	3,853,835	(655,114)	3,311,239
Infrastructure - Sewer	13,751,611	32,286,624	(25,308,728)	20,729,507
Infrastructure - Water	29,937,721	28,534,261	(27,069,452)	31,402,530
	68,721,241	75,933,807	(55,163,340)	89,491,708

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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12. Property, plant and equipment (continued)

Expenditure incurred to repair and maintain property, plant and equipment

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

Repairs and maintenance of Infrastructure assets	8,111,641	7,761,858
Repairs and maintenance of other assets	4,484,944	6,574,969
	12,596,585	14,336,827

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

13. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software	4,034,303	(2,709,378)	1,324,925	3,900,719	(2,858,379)	1,042,340

Reconciliation of intangible assets - 2021

	Opening balance	Additions	Disposals	Amortisation	Total
Computer software	1,042,340	569,180	(10)	(286,585)	1,324,925

Reconciliation of intangible assets - 2020

	Opening balance	Additions	Disposals	Transfers	Amortisation	Total
Computer software	1,152,177	3,199	(2,993,890)	3,069,265	(188,411)	1,042,340

14. Heritage assets

	2021			2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Historical buildings	48,660,000	-	48,660,000	46,260,000	-	46,260,000

Reconciliation of heritage assets 2021

	Opening balance	Revaluation increase/(decrease)	Total
Historical buildings	46,260,000	2,400,000	48,660,000

Reconciliation of heritage assets 2020

	Opening balance	Total
Historical buildings	46,260,000	46,260,000

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
14. Heritage assets (continued)		
Valuation of heritage assets		
Valuations were performed by an independent valuer, Mr Athur Lelosa, who holds a recognised and relevant qualification, during 2015. During the current year, the Town Hall were revalued after the renovations were completed. A certificate to this extent was received from the above-mentioned valuator.		
The municipality had assessed the heritage assets at year-end and confirms that there was no need for these assets to be impaired at the end of the financial period.		
Heritage assets used for more than one purpose		
The following heritage assets are used by the entity for more than one purpose:		
<ul style="list-style-type: none">Erf 172 in President Boshoff street in Bethlehem is used as offices for the traffic department.Erf 318 in Market street in Clarens is used as municipal offices.		
Expenditure incurred to repair and maintain heritage assets		
Expenditure incurred to repair and maintain heritage assets included in Statement of Financial Performance		
Repairs and maintenance	2,184,100	-
15. Other financial liabilities		
At amortised cost		
Development Bank of South Africa (DBSA)	24,741,499	29,459,593
Interest is charged at 10% per year. The loan is repayable in monthly installments of R621,615 over a period of 4 years.		
Non-current liabilities		
At amortised cost	19,153,246	24,352,731
Current liabilities		
At amortised cost	5,588,253	5,106,862
16. Finance lease obligation		
Minimum lease payments due		
- within one year	377,362	350,577
- in second to fifth year inclusive	368,677	746,124
Present value of minimum lease payments	746,039	1,096,701
Non-current liabilities	368,677	746,124
Current liabilities	377,362	350,577
	746,039	1,096,701

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

The average lease term was 3 years and the average effective borrowing rate was 7.12% (2020: 7.25%).

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 note 12.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
17. Payables from exchange transactions		
Trade payables	721,778,347	561,518,752
Trade receivables with credit balances	17,838,785	14,071,589
Deposits on land sales	520,114	520,114
Deposits received	302,361	302,361
Sundry creditors	2,969,192	1,205,269
Salary related creditors	14,010,623	25,647,008
Accrued bonus	6,563,104	6,274,338
Accrued leave	38,298,029	31,103,232
Retention on projects	3,957,153	3,881,940
	806,237,708	644,524,603

18. Consumer deposits

Water and electricity	10,741,204	9,718,544
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19. Provisions

Reconciliation of provisions - 2021

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	6,629,611	3,288,705	9,918,316

Reconciliation of provisions - 2020

	Opening Balance	Change in discount factor	Total
Environmental rehabilitation	6,972,342	(342,731)	6,629,611

Non-current liabilities	5,966,893	6,629,611
Current liabilities	3,951,423	-
	9,918,316	6,629,611

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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19. Provisions (continued)

Environmental rehabilitation provision

Bethlehem Dumping site:

The new dumping site in Bethlehem became operational on 1 December 2010 as the old dumping site was closed. On a monthly basis the site is filled with approximately 6,200 cubic meters of cover material, garden waste, industrial waste and building rubble. The landfill site was originally assessed by Metsi Metseng Geological & Environmental Services and based on the assessment, the provision for the rehabilitation and the closure of the landfill site was calculated over a period of 20 years. The landfill site was assessed by EnviroMatrix (Pty) Ltd and due to the decrease in the amount of waste (due to recycling) the lifespan was increase to 25 years.

The following key assumptions were made that can impact considerably on the calculations of the provision if they change:

- provision was made for the disposal of 2 985 100 cubic meters waste what will fill an area of 115 600 square metres x 18 meters high over a lifespan of 25 years
- an average disposal tempo of 200 cubic meters per day over the 25 years lifespan was used for the cost calculations
- an annual inflationary increase of 3.8% (2020 : 3.5%) was used of the projected costs

Mashaeng Dumping Site:

The site was developed in 1992 with a lifespan of approximately 30 years. On a monthly basis, the site is filled with approximately 210 cubic meters of cover material, garden waste, industrial waste and building rubble. The landfill site was assessed by EnviroMatrix (Pty) Ltd and based on the assessment, the provision for the rehabilitation and the closure of the landfill site will have an estimated lifespan of 2 years.

The following key assumptions were made that can impact considerably on the calculations of the provision if they change:

- provision was made for the disposal of 55 270 cubic meters waste what will fill the area within the remaining lifespan of 1 year
- an average disposal tempo of 7 cubic meters per day over the 1 year lifespan was used for the cost calculations
- an annual inflationary increase of 3.8% (2020 : 3.5%) was used of the projected costs

General for both sites:

Proper management of the site will increase the number of years of operation and will ensure that environmental compliance is adhered to. The timing of the cashflow is uncertain.

An assessment was done on 30 August 2021 by the firm EnviroMatrix (Pty) Ltd to estimate the total closure cost of the current dumping sites in accordance with it's licence agreements.

20. Employee benefit obligations

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

Carrying value		
Present value of the defined benefit obligation-wholly unfunded	(23,235,000)	(20,460,000)

[Provide a brief description of the link between the reimbursement right(s) and the related obligation]

The fair value of plan assets includes:

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

Opening balance	(20,460,000)	(22,000,000)
Benefits paid	2,427,000	2,369,000
Net expense recognised in the statement of financial performance	(5,202,000)	(829,000)
	(23,235,000)	(20,460,000)

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
20. Employee benefit obligations (continued)		
Net expense recognised in the statement of financial performance		
Interest cost	(2,485,000)	(2,067,000)
Actuarial (gains) losses	(2,717,000)	1,238,000
	(5,202,000)	(829,000)

Key assumptions used

The post retirement medical aid liability is valued on a generally accepted actuarial valuation method. The liability was calculated on a member-by-member basis, taking into account the liabilities arising in respect of principal members and their spouses. Ages are calculated as per age on 30 June 2021.

The projected unit credit method was used as prescribed by IAS 19 and GRAP 25. This method is based on the approximation that the post-retirement benefit is notionally built up over the employees' working life.

The actuarial valuation of the PRMA (post-retirement medical aid) liability involves the following:

- the projection of future post-retirement medical contribution subsidy cash flows, taking into account the probabilities of survival, withdrawal, ill-health retirement, early retirement and death in service
- the medical contribution subsidies arising in respect of adult dependents of employees
- increasing the projected subsidy cashflows in line with expected long-term contribution escalation
- discounting these cashflows in order to express the PRMA liability in current Rand terms

Discount rate used: GRAP 25 defines the determination of the Discount rate assumption to be used as follows:

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

CPI used (Consumer Price Inflation): Difference between nominal and yield curves.

Medical Aid Contribution Inflation: CPI + 1%

Net effective discount rate: Yield curve based.

Defined contribution plan

It is the policy of the municipality to provide retirement benefits to all its employees. A number of defined contribution provident funds, all of which are subject to the Pensions Fund Act exist for this purpose. All councillors and employees belong to three defined benefit retirement funds. One fund is administered by the Provincial Pension Fund. The last actuarial valuation as at 30 June 2005 are in the process of being finalised and will be submitted to the Municipality once approved by the executive committee of the fund. Information could not be obtained for the other two funds regarding the administrators nor the actuaries.

The municipality is under no obligation to cover any unfunded benefits.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

	2021	2020
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21. Long service leave award

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

Opening balance	(18,300,000)	(17,946,000)
Benefits paid	1,555,303	2,232,000
Net expense recognised in the statement of financial performance	(2,896,303)	(2,586,000)
	(19,641,000)	(18,300,000)

Net expense recognised in the statement of financial performance

Current service cost	(1,909,000)	(2,007,000)
Interest cost	(2,338,000)	(1,813,000)
Actuarial (gains) losses	1,350,697	1,234,000
	(2,896,303)	(2,586,000)

Key assumptions used

The long service leave liability is valued on a generally accepted actuarial valuation method. Ages and gender information at 30 June 2021 were used.

The projected unit credit method was used as prescribed by IAS 19 and GRAP 25. This method is based on the expected value of each employee's long service award and is projected to the next interval by allowing for future salary growth.

The actuarial valuation of the Long service leave liability involves the following:

- long service benefits are awarded in the form of leave days and a percentage of salary
- the calculated award values are then discounted at the assumed discount interest rate to the date of the calculation
- mortality, retirements and withdrawals from service are also taken into account
- the liability is determined on the basis that each employee's long service benefits accrues uniformly over the working life of an employee up to the end of the interval at which the benefits becomes payable
- the current policy for awarding long service awards remains unchanged in the future

22. Revenue

Dividends received	7,778	7,354
Fines, penalties and forfeits	1,071,861	1,026,460
Government grants and subsidies	277,830,235	248,747,010
Interest received on investment	74,057	240,927
Interest received on consumer accounts	49,775,283	53,269,618
Licences and permits	137,300	205,626
Other income	3,777,290	6,331,688
Property rates	131,942,395	126,024,542
Public contributions and donations	-	4,918,702
Recoveries	6,568,875	981,552
Rendering of services	1,576,270	1,690,763
Rental of facilities and equipment	5,055,307	5,416,067
Service charges	394,940,851	369,464,341
	872,757,502	818,324,650

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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22. Revenue (continued)

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

Dividends received	7,778	7,354
Interest received on investment	74,057	240,927
Interest received on consumer accounts	49,775,283	53,269,618
Licences and permits	137,300	205,626
Other income	3,777,290	6,331,688
Recoveries	6,568,875	981,552
Rendering of services	1,576,270	1,690,763
Rental of facilities and equipment	5,055,307	5,416,067
Service charges	394,940,851	369,464,341
	461,913,011	437,607,936

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

Taxation revenue		
Property rates	131,942,395	126,024,542
Transfer revenue		
Fines, penalties and forfeits	1,071,861	1,026,460
Government grants and subsidies	277,830,235	248,747,010
Public contributions and donations	-	4,918,702
	410,844,491	380,716,714

23. Service charges

Sale of electricity	215,154,655	205,157,044
Sale of water	71,723,935	74,903,338
Sewerage and sanitation charges	52,763,631	45,228,216
Refuse removal	55,298,630	44,175,743
	394,940,851	369,464,341

24. Rental of facilities and equipment

Premises		
Premises	5,055,307	5,416,067

25. Interest received on consumer accounts

Revenue from non-exchange transactions		
Property rates	8,314,470	8,691,725
Revenue from exchange transactions		
Electricity	1,479,712	1,225,821
Water	15,663,457	17,285,029
Sewerage and sanitation	9,815,875	10,528,559
Refuse	12,565,587	13,392,266
Rentals, advertising and sundry charges	1,936,182	2,146,218
	49,775,283	53,269,618

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
26. Other income		
Building plan fees	501,366	357,065
Clearance certificates	613,362	544,800
Encroachment charges	1,382,229	1,312,686
Escorting of abnormal freights	90,317	103,927
Insurance claims received	196,650	40,545
Skills development levies received	855,991	3,317,653
Sundry income	17,871	418,549
Tender documents, photocopies and faxes	119,504	236,463
	3,777,290	6,331,688
27. Investment revenue		
Dividend revenue		
Investments	7,778	7,354
Interest revenue		
Bank	4,225	155,566
Investments	69,832	85,361
	74,057	240,927
	81,835	248,281

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
28. Property rates		
Rates received		
Residential	52,163,148	49,021,188
Commercial	73,250,554	68,764,378
State	1,806	31,716
Small holdings and farms	6,526,887	8,207,260
	131,942,395	126,024,542

Valuations

Valuations per valuation roll	R	R
	'000	'000
Residential	7,062,372	6,194,968
Commercial	2,874,398	2,846,260
Government	12,108	12,108
Municipal	733,755	743,325
Small holdings and farms	4,884,565	4,815,767
	15,567,198	14,612,428

Valuations on land and buildings are performed every five years. The last general valuation came into effect on 1 July 2017. 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 R0.00894989 (2020: R0.0087316) is applied to residential and small holding property valuations to determine assessment rates. Rebates of R40,000 (2020: R40,000) are granted to residential property owners and a further 25% (2020 : 25%) rebate to pensioners.

A general rate of R0.02684967 (2020: R0.0261948) is applied to business, industrial commercial and public service infrastructure property valuations to determine assessment rates. Rebates of 100% (2020: 90%) are granted to public service infrastructure only.

A general rate of R0.00894989 (2020: R0.0087316) is applied to farm property valuations to determine assessment rates. Rebates of 85% (2020: 85%) are granted to farmers and 85% (2020 : 75%) for small holdings. The rebates granted to farmers are done in accordance with Section 21 of the Municipal Property Rates Act (Act no 6 of 2004).

Rates to farmers and national government are levied on an annual basis with the final date for payment being 7 August 2021. Rates for all other consumers are levied on a monthly basis with the final date for payment before the 7th of each month. Interest at prime plus 1% per annum (2020: prime plus 1%) is levied on rates outstanding after the due date.

The new general valuation were to be implemented on 01 July 2022, but an extension of 2 years were requested from council and approved on 26 August 2021 (Item 48/2021) and will now be implemented on 1 July 2024. Approval must still be obtain from the provincial MEC for Local Government.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
29. Government grants and subsidies		
Operating grants		
Equitable share	207,393,000	164,487,000
Expanded Public Works Program grant	2,583,000	1,375,000
Municipal Disaster Relief grant	-	864,000
Financial Management grant	2,500,000	2,235,000
Library grant	-	3,000,000
	212,476,000	171,961,000
Capital grants		
Municipal Infrastructure grant (MIG)	41,823,000	48,648,000
Department of Water Affairs grant (DWAf)	861,235	2,802,010
Water Service Infrastructure grant	15,110,000	14,323,000
National Development Electrification grant	4,060,000	11,013,000
Borehole grant	3,500,000	-
	65,354,235	76,786,010
	277,830,235	248,747,010

Equitable Share

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

All registered indigents receive a monthly subsidy for all basic services, 6kl of water and where applicable, 50 Kw of electricity, which is funded from the grant.

Expanded Public Works Program grant

Current-year receipts	2,583,000	1,375,000
Conditions met - transferred to revenue	(2,583,000)	(1,375,000)
	-	-

The expanded public works programme grant was fully utilised during the financial year.

Municipal Disaster Relief grant

Current-year receipts	-	864,000
Conditions met - transferred to revenue	-	(864,000)
	-	-

The municipal disaster relief grant was fully utilised during the previous financial year for the prevention of the COVID-19 pandemic.

Financial Management grant

Current-year receipts	2,500,000	2,235,000
Conditions met - transferred to revenue	(2,500,000)	(2,235,000)
	-	-

The municipal management grant was fully utilised during the financial year.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
29. Government grants and subsidies (continued)		
Library grant		
Current-year receipts	-	3,000,000
Conditions met - transferred to revenue	-	(3,000,000)
	<u>-</u>	<u>-</u>
No library grant were received during the financial year.		
Grants in kind - Free State COGTA		
Salary of acting Municipal Manager	1,251,183	729,857
The acting Municipal manager (Mr Mokgatlhe) is seconded by Free State Department of COGTA from 1 December 2019 to date.		
Municipal Infrastructure grant (MIG)		
Current-year receipts	41,823,000	48,648,000
Conditions met - transferred to revenue	(41,823,000)	(48,648,000)
	<u>-</u>	<u>-</u>
This grant was fully utilised for the upgrading of sports facilities, solid waste, electrification and the construction of roads during the year.		
Department of Water Affairs grant (DWAf)		
Current-year receipts	861,235	2,802,010
Conditions met - transferred to revenue	(861,235)	(2,802,010)
	<u>-</u>	<u>-</u>
This grant was utilised during the year for the upgrading of the water infrastructure network to Fouriesburg.		
Water Service Infrastructure grant		
Current-year receipts	15,110,000	14,323,000
Conditions met - transferred to revenue	(15,110,000)	(14,323,000)
	<u>-</u>	<u>-</u>
The water service infrastructure grant was fully utilised during the financial year for sanitation (upgrading of waste water treatment works), upgrade / refurbishment of pump stations and development of new pump stations.		
National Development Electrification grant		
Current-year receipts	4,060,000	11,013,000
Conditions met - transferred to revenue	(4,060,000)	(11,013,000)
	<u>-</u>	<u>-</u>
This grant was fully utilized during the year under review for electrification and various electrical projects.		

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
29. Government grants and subsidies (continued)		
Borehole grant		
Current-year receipts	3,500,000	-
Conditions met - transferred to revenue	(3,500,000)	-
	<u>-</u>	<u>-</u>

This grant was fully utilized for the drilling of boreholes during the year under review for various boreholes.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 9 of 2021), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

30. Employee related costs

Basic	190,987,484	175,924,643
Bonus	14,158,069	13,584,455
Medical aid - company contributions	23,994,223	22,689,203
UIF	1,626,609	1,559,608
WCA	2,059,201	2,213,429
SDL	2,318,566	2,155,617
Other payroll levies	95,911	90,600
Leave paid out and provision	8,735,569	7,096,462
Medical Aid contributions for pensioners	-	2,373,083
Overtime payments	13,761,574	14,140,629
Long-service awards	1,909,000	(362,000)
Standby allowances	7,280,216	7,581,861
Acting allowances	7,016,162	5,266,486
Car allowance	8,070,537	7,545,852
Housing benefits and allowances	1,984,606	1,902,564
Arbitration awards and other incidental costs	391,719	19,296
Group life insurance	371,490	334,556
Pension fund contributions	29,867,577	28,721,322
Other allowances	633,111	581,169
Telephone allowances	357,500	376,000
	<u>315,619,124</u>	<u>293,794,835</u>

Remuneration of municipal manager

Annual Remuneration	1,152,315	1,152,315
Car Allowance	384,700	384,700
Contributions to UIF, Medical and Pension Funds	1,813	1,785
Cellphone Allowance	18,000	18,000
Leave paid out	67,707	63,168
	<u>1,624,535</u>	<u>1,619,968</u>

Remuneration of chief finance officer

Annual Remuneration	470,818	941,636
Car Allowance	157,237	314,474
Contributions to UIF, Medical and Pension Funds	1,041	1,785
Cellphone Allowance	6,000	12,000
Leave paid out	342,155	73,418
	<u>977,251</u>	<u>1,343,313</u>

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
30. Employee related costs (continued)		
Remuneration of director public works		
Annual Remuneration	941,636	941,636
Car Allowance	314,474	314,474
Contributions to UIF, Medical and Pension Funds	1,813	1,785
Cellphone Allowance	12,000	12,000
Leave paid out	75,474	39,156
	1,345,397	1,309,051
Remuneration of director corporate services		
Annual Remuneration	941,636	941,636
Car Allowance	314,474	314,474
Contributions to UIF, Medical and Pension Funds	1,813	1,785
Cellphone Allowance	12,000	12,000
Leave paid out	40,253	44,051
	1,310,176	1,313,946
Remuneration of director community services		
Annual Remuneration	941,636	941,636
Car Allowance	314,474	314,474
Contributions to UIF, Medical and Pension Funds	1,813	1,785
Cellphone Allowance	12,000	12,000
Leave paid out	50,316	48,945
	1,320,239	1,318,840
Remuneration of director of local economics development		
Annual Remuneration	941,636	941,636
Car Allowance	314,474	314,474
Contributions to UIF, Medical and Pension Funds	1,813	1,785
Cellphone Allowance	12,000	12,000
Leave paid out	75,474	-
Acting Allowance	-	60,422
	1,345,397	1,330,317

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

31. Remuneration of councillors

2021	Allowance	Travel allowance	Cellphone allowance	Total
Executive Mayor	893,850	-	40,800	934,650
Speaker	224,743	23,452	14,271	262,466
Chairperson Public Accounts committee	363,017	-	40,800	403,817
Chairperson Policy committee	290,414	72,603	40,800	403,817
Mayoral executive committee	3,754,167	770,945	275,400	4,800,512
Councillors	8,692,865	290,529	1,161,372	10,144,766
	14,219,056	1,157,529	1,573,443	16,950,028

2020	Allowance	Travel allowance	Cellphone allowance	Total
Executive Mayor	893,850	-	40,800	934,650
Speaker	715,078	-	40,800	755,878
Chairperson Public Accounts committee	363,017	-	40,800	403,817
Chairperson Policy committee	290,414	72,603	40,800	403,817
Mayoral executive committee	3,974,192	718,517	285,600	4,978,309
Councillors	7,836,954	1,074,907	1,142,400	10,054,261
	14,073,505	1,866,027	1,591,200	17,530,732

In-kind benefits

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

The Mayor and the Speaker each have the use of separate Council owned vehicles for official duties.

32. Depreciation, impairment and amortisation

Property, plant and equipment	93,185,856	81,281,151
Intangible assets	286,585	188,412
	93,472,441	81,469,563

33. Finance costs

Employee benefit obligation	2,485,000	2,067,000
Long service award	2,338,000	1,813,000
Loans and finance leases	2,808,654	3,316,445
Bank	85,160	721,308
Penalties and interest on late payment of VAT	2,156,504	2,460,592
Other interest paid	22,221,303	33,400,304
	32,094,621	43,778,649

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020		
34. Debt impairment				
Contributions to debt impairment on consumer debtors from exchange transactions	149,644,752	70,431,014		
Contributions to debt impairment on consumer debtors and other debtors from non-exchange transactions	22,632,502	26,027,185		
Bad debts written off	3,301,363	40,216,481		
	175,578,617	136,674,680		
Council approved the write-off of indigent accounts to the value of R37,111,435 at 23/07/2021.				
35. Bulk purchases				
Electricity - Eskom	184,645,460	168,082,710		
Water	25,198,116	20,460,681		
	209,843,576	188,543,391		
Electricity losses				
	Units 2021	Units 2020		
Units purchased	152,054,566	148,573,004	184,645,460	169,157,942
Units sold	(123,917,546)	(125,529,173)	(230,014,059)	(205,157,044)
Total loss	28,137,020	23,043,831	(45,368,599)	(35,999,102)
Rand value of loss				
Technical losses			34,167,819	26,236,577
Percentage loss				
Technical losses			18.50 %	15.51 %
Water losses				
	Units 2021	Units 2020		
Units purified	10,487,164	11,033,690	57,236,785	48,655,667
Units sold	(5,005,847)	(6,653,300)	(71,723,935)	(74,903,338)
Total	5,481,317	4,380,390	(14,487,150)	(26,247,671)
Rand value of losses				
Technical losses			60,294,487	32,020,651
Percentage Loss:				
Technical losses			52.27 %	39.70 %

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
36. Contracted services		
Outsourced Services		
Burial services	442,603	33,770
Catering services	57,120	209,000
Commissions and committees	85,605	100,647
Meter management	5,777,729	3,095,797
Occupational health and safety	95,017	516,981
Printing services	-	1,131,327
Refuse removal	9,548,084	3,783,204
Security services	29,583,745	25,837,402
Transport services	-	174,000
Consultants and Professional Services		
Business and advisory	24,583,612	27,674,380
Infrastructure and planning	26,281	28,426
Legal cost	3,753,706	3,572,929
Contractors		
Audio-visual services	116,500	84,900
Bore waterhole drilling	3,138,385	-
Chemicals	3,989,098	1,745,548
Catering services	7,200	1,385,585
Electrical	2,120,878	205,561
Employee wellness	28,490	190,000
Event promoters	-	15,695
Gas	957	-
Photographer	-	21,000
Prepaid electricity vendors	3,506,733	3,190,754
Sports and recreation	201,300	118,450
Stage and sound crew	76,550	2,244,900
	87,139,593	75,360,256
37. General expenses		
Advertising	141,490	747,780
Auditors remuneration	7,422,522	6,472,522
Bank charges	1,379,908	1,514,166
Bursaries	1,617,952	1,183,623
Consumables	13,609,411	9,416,888
Donations	699,023	1,213,446
Electricity	11,099,359	11,205,305
Entertainment	12,664	36,203
Fuel and oil	4,990,159	6,778,870
Insurance	2,856,469	2,503,110
License fees	551,653	358,527
Pest control	379,974	774,940
Postage and courier	1,153,431	1,365,430
Printing and stationery	1,120,115	296,186
Promotions and sponsorships	248,568	1,288,338
Property lease payments	1,043,855	942,810
Rental of equipment	10,417,434	7,428,573
Subscriptions and membership fees	2,962,199	3,236,156
Telephone and fax	3,654,138	3,183,956
Transport cost	165,000	2,563,720
Travel - local	470,109	2,710,251
Uniforms and protective clothing	734,148	586,207
	66,729,581	65,807,007

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
38. Gains or losses on biological assets		
Gains or losses arising from a change in fair value less point of sale costs	(428,475)	501,920
39. Fair value adjustments		
Heritage assets (Fair value model)	2,400,000	-
Other financial assets		
• Other financial assets (Designated as at FV through P&L)	144,341	(7,114)
	2,544,341	(7,114)
40. Auditors' remuneration		
Fees	7,422,522	6,472,522
41. Operating lease income		
Projected income from operating lease agreement		
Within one year	668,733	655,453
In second to fifth year (inclusive)	83,407	752,140
	752,140	1,407,593
<p>Rental contracts for the different flats (100), vacant land (7) and houses (160) are signed for a period of 12 months, whereafter the contract is done on a month to month basis. All the houses and flat contracts have a one month notice period. New tenants are normally found within that period. The projected income are thus only included in the period within one year. Contracts for business premises (7) rental are signed for a period of 3 years to 9 years and 11 months. Escalation on these contracts are done on an annual basis linked to the inflation rate.</p>		
42. Cash generated from operations		
Deficit	(164,096,001)	(107,927,037)
Adjustments for:		
Depreciation and amortisation	93,472,441	81,469,563
Gain / (loss) on sale of assets and liabilities	17,715,819	4,885,164
Gain / (loss) on games stock	428,475	(501,920)
Gain / (loss) on actuarial valuation	1,341,889	(3,670,044)
Fair value adjustments	(2,544,341)	7,114
Finance costs - Finance leases and loans	2,808,654	-
Debt impairment	175,578,617	136,674,680
Non Cash Movements in Employee benefit obligation	2,775,000	-
Changes in working capital:		
Inventories	(713,633)	1,838,774
Receivables from exchange transactions	(1,285,797)	(2,653,886)
Consumer debtors	(181,793,971)	(150,388,437)
Other receivables from non-exchange transactions	(8,878,923)	(30,649)
Payables from exchange transactions	161,712,439	150,247,429
VAT	(30,734,616)	(17,593,638)
Consumer deposits	1,022,660	985,391
Provision	3,288,705	(342,731)
	70,097,417	92,999,773

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

43. Financial instruments disclosure

Categories of financial instruments

2021

Financial assets

	At fair value	At amortised cost	At cost	Total
Other financial assets	1,915,376	-	-	1,915,376
Trade and other receivables from exchange transactions	-	14,326,932	170,000	14,496,932
Other receivables from non-exchange transactions	-	12,477,887	-	12,477,887
Consumer debtors from exchange and non-exchange transactions	-	132,942,651	-	132,942,651
Cash and cash equivalents	-	608,255	-	608,255
	1,915,376	160,355,725	170,000	162,441,101

Financial liabilities

	At amortised cost	Total
Other financial liabilities	24,741,499	24,741,499
Trade and other payables from exchange transactions	806,237,708	806,237,708
Bank overdraft	13,796,391	13,796,391
Consumer deposits	10,741,204	10,741,204
Finance lease obligation	746,039	746,039
	856,262,841	856,262,841

2020

Financial assets

	At fair value	At amortised cost	At cost	Total
Other financial assets	1,771,246	-	-	1,771,246
Trade and other receivables from exchange transactions	-	13,211,135	-	13,211,135
Other receivables from non-exchange transactions	-	3,428,964	170,000	3,598,964
Consumer debtors from exchange and non-exchange transactions	-	126,727,297	-	126,727,297
Cash and cash equivalents	-	233,442	-	233,442
	1,771,246	143,600,838	170,000	145,542,084

Financial liabilities

	At amortised cost	Total
Other financial liabilities	29,459,593	29,459,593
Trade and other payables from exchange transactions	644,524,604	644,524,604
Bank overdraft	2,071,772	2,071,772
Consumer deposits	9,718,544	9,718,544
Finance lease obligation	1,096,701	1,096,701
	686,871,214	686,871,214

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
44. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Property, plant and equipment - Infrastructure: Sewer	1,187,796	10,553,029
• Property, plant and equipment - Infrastructure: Water	-	857,066
• Property, plant and equipment - Infrastructure: Roads	24,683,323	-
• Property, plant and equipment - Infrastructure: Electrical	6,520,031	-
	32,391,150	11,410,095
Total capital commitments		
Already contracted for but not provided for	32,391,150	11,410,095
Total commitments		
Total commitments		
Authorised capital expenditure	32,391,150	11,410,095

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
45. Contingencies		
Telkom Limited SA: Telkom claim that a sewerage spillage damaged their equipment.	141,514	141,514
Udumo Trading 147 CC: Udumo claim that they completed a reservoir in Clarens and was not fully paid.	4,000,000	4,000,000
GA and N Schoombie: Regarding a claim for water damages after a municipal pump bust into their house. This case is now closed.	-	43,196
Rudnat Projects CC: Regarding an outstanding payment from the water services infrastructure grant.	4,856,544	4,856,544
Emendo Inc: Development Agreement: Bakenpark Ext 5, 6 & 7: Regarding the lodging of a High Court Application after the municipality cancelled the agreement.	850,000	850,000
Ke a Dira Construction: Regarding the appointment of another service provider for the construction of 1,8 km block paved roads and storm water drains in Bohlokong, Bethlehem.	7,961,411	7,961,411
MVD Xariep Raadgewende Ingeneurs CC: Regarding an outstanding payment for professional services rendered to the municipality.	106,018	106,018
Hexing Electrical SA (Pty) Ltd: Regarding a claim against the municipality for cancellation of a contract to install electrical meters around Dihlabeng.	99,508,065	99,508,065
Sonja KC Regarding a claim for back-pay from 3 July 2008 till 5 March 2015. This case was dismissed by the court due to late application. This case is closed.	-	390,000
HT Pelatona Projects (Pty) Ltd: Regarding outstanding payments for services rendered regarding the upgrading of the Clarens Waterworks.	612,000	612,000
Waco Africa (Pty) Ltd t/a Sanitech: Regarding a claim for outstanding payments for the hire of portable toilets. The last correspondence received were on 26 October 2020 and the case is now closed.	-	1,542,000
MD & AMJ Coetzer: Regarding a motor vehicle accident where a Municipal Fire Department truck was involved.	28,150	28,150
Morne Barnard: Regarding a motorbike that was damaged as a result of a large hole in the road and he is also claiming damages of pain and suffering.	235,965	235,965
Leonard Slabbert: Regarding a motorbike that was damaged as a result of a large hole in the road and he is also claiming damages for personal injuries, suffering and disfigurement.	391,290	391,290
	118,690,957	120,666,153

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
46. Related parties		
Relationships		
Free State Department of COGTA		Remuneration of Acting Municipal Manager
Councillors		All municipal councillors
Members of key management		All Section 57 managers
Related party balances		
Amounts included in Trade receivable regarding related parties		
Councillors in arrears (refer to Note 53)	575,851	483,804
Me SM Mabula (Director Corporate services)	798,288	608,293
Me MAB Mosima (Director Community services)	4,726	8,652
Provision for doubtful debts related to outstanding balances with related parties		
Councillors	548,801	459,435
Me SM Mabula (Director Corporate services)	729,010	548,361
Me MAB Mosima (Director Community services)	-	899
Donation in kind		
Remuneration of Acting Municipal Manager	1,251,183	729,857
The acting Municipal manager (Mr Mokgathe) is seconded by Free State of COGTA from 1 December 2019 to date.		
Remuneration paid to related parties		
Section 57 Managers (refer to Note 30)	7,922,995	8,235,435
Councillors (refer to Note 31)	16,950,028	17,530,732
	24,873,023	25,766,167

47. Change in estimate

Property, plant and equipment

The useful life of certain property, plant and equipment was estimated in 2020. In the current period management have revised their estimate due to assets still being in working order. The effect of this revision has decreased the depreciation charges for the current period by R 1,121,740

48. Prior period errors

Payable from exchange transactions were adjusted to agree to the detailed lists.

Payables relating to sale of land were corrected as the properties were already transferred to the new owners.

The correction of the error(s) results in adjustments as follows:

Statement of financial position	2020	2019
Payable from exchange transactions	2,859,588	2,859,588
Opening Accumulated Surplus or Deficit	(2,859,588)	(2,859,588)
Irregular expenditure		
Opening balance	236,765,007	-
Adjustments made	(25,117,352)	-
Restated opening balance	211,647,655	-

Adjustment made to opening balance of irregular expenditure is due to a duplication of irregular expenditure of R25,117,352 in the 30 June 2020 annual financial statements. It was subsequently noted that the suppliers invoices were duplicated in the register. These invoices related to the composition of the bid committee and the amount were adjusted as per Note 54.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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49. Risk management

Financial risk management

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

The municipality's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality's financial performance. The municipality uses derivative financial instruments to hedge certain risk exposures. Risk management is carried out by a central treasury department (entity treasury) under policies approved by the accounting officer. Municipality treasury identifies, evaluates and hedges financial risks in close co-operation with the municipality's operating units. The accounting officer provide written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and non-derivative financial instruments, and investment of excess liquidity.

Liquidity risk

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

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2021	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	5,588,253	5,743,938	13,409,308	-
Trade and other payables	812,887,468	-	-	-
Finance lease liability	377,362	368,677	-	-

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	4,726,956	5,217,674	19,135,056	-
Trade and other payables	651,174,365	-	-	-
Finance lease liability	350,577	377,317	369,429	-

Credit risk

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

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the council. Outstanding accounts are followed up monthly and the supply of electricity accounts not paid on due dates are cut immediately.

Market risk

Interest rate risk

The municipality's interest rate risk arises from consumer debtors. Consumer debtors are levied at variable rates expose the municipality to cash flow interest rate risk. The interest rate is linked to the prime interest rate and the risk is not considered to be material at this stage. Long term borrowings was done at a fixed rate and interest rate risk will not impact the financial position of the municipality.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

49. Risk management (continued)

Price risk

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

The municipality's investments in equity of other entities that are publicly traded on the JSE, but does not have a material effect on the municipality's income.

50. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had a loss of R164,096,001 (2020 : (R107,927,037) and that the municipality's current liabilities exceed its current assets by R519,051,397 (2020 : R388,461,565). In addition, the municipality owed Eskom R542,013,593 (2020 : R404,919,251), Free State Fleet Management Trading Entity R62,681,782 (2020 : R62,681,782), the Department of Water Affairs R54,427,508 (2020 : R28,956,389) and the Department of Labour R20,032,577 (2020 : R17,891,495) at 30 June 2021 which is long overdue, that may cast significant doubt on the ability of the municipality to continue as a going concern. The municipality is not able to timeously recover outstanding amounts from consumer debtors and this is resulting in the inability to pay their suppliers within the 30 day time period.

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.

51. Events after the reporting date

There is no events after the reporting date.

52. Unauthorised expenditure

Opening balance as previously reported	395,896,753	241,087,377
Opening balance as restated	395,896,753	241,087,377
Add: Expenditure identified - current	255,555,816	154,809,376
Closing balance	651,452,569	395,896,753

The over expenditure incurred by municipal departments during the year is attributable to the following categories:

Non-cash	90,756,241	4,041,245
Cash	164,799,575	150,768,131
	255,555,816	154,809,376

Analysed as follows: non-cash

Depreciation and amortisation	9,209,441	2,478,565
Actuarial losses	1,341,889	-
Loss on disposal of property, plant and equipment	17,565,819	-
Provision of impairment	62,210,617	1,562,680
Loss on biological assets	428,475	-
	90,756,241	4,041,245

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
52. Unauthorised expenditure (continued)		
Analysed as follows: cash		
Bulk purchases	68,583,576	23,543,391
Contracted services	13,943,593	17,073,256
Employee related costs	39,831,119	35,626,270
Finance cost	22,342,621	34,578,649
General expenditure	16,366,581	38,055,007
Remuneration of councillors	-	701,732
Repairs & maintenance	3,732,085	1,189,826
	164,799,575	150,768,131

Disciplinary steps taken/criminal proceedings

No disciplinary steps were taken during the year under review.

Recoverability of unauthorised expenditure

No amounts will be recovered.

53. Fruitless and wasteful expenditure

Opening balance as previously reported	117,923,400	81,341,196
Opening balance as restated	117,923,400	81,341,196
Add: Expenditure identified - current	21,174,242	36,582,204
Closing balance	139,097,642	117,923,400

Expenditure identified in the current year include those listed below:

Interest paid	21,174,242	36,582,204
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Recoverability steps taken/criminal proceedings

No amounts will be recovered.

Disciplinary steps taken/criminal proceedings

No disciplinary steps were taken during the year under review.

54. Irregular expenditure

Opening balance as previously reported	211,647,655	106,810,958
Opening balance as restated	211,647,655	106,810,958
Add: Irregular Expenditure - current	151,323,677	129,954,049
Less: Duplication of prior period amounts	-	(25,117,352)
Closing balance	362,971,332	211,647,655

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

2021

2020

54. Irregular expenditure (continued)

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

Competitive bidding not invited	-	4,192,639
Three written quotations not invited	-	155,242
Bid rigging	5,954,915	-
Tax clearances not obtained	-	124,065
Appointment of employees without proper process followed	15,965,316	7,105,677
Actual expenditure exceeded the contract amount	24,691,018	27,351,128
Composition of bid committee	34,136,714	33,098,980
Supplier in service of the state	64,156	1,465,924
Competitive bidding process not followed	69,100,247	14,824,522
Supplier did not submit municipal account as part of bidding process	738,715	4,463,779
Supplier not registered on Central Data Base	-	174,958
Supplier non-compliant on Central Data Base	506,096	-
Session agreement not signed by Municipal Manager	-	1,612,475
Cost containment measures not adhered to	166,500	6,499,705
	151,323,677	101,069,094

All amounts are VAT exclusive (where applicable).

Recoverability steps taken/criminal proceedings

No amounts will be recovered.

Disciplinary steps taken/criminal proceedings

No disciplinary steps were taken during the year under review.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
55. In-kind donations and assistance		
Details of donations		
		Total Rand value
400 pairs of school shoes to various schools in Dihlabeng		150,723
8,000 Dignitary packs for the school learners at various schools across Dihlabeng area		379,500
1,000 Calculators to 2021 Matric learners across Dihlabeng area		139,800
Cash donation to EL Henry Enterprise for SMME marketing materials		29,000
		<u>699,023</u>
56. Additional disclosure in terms of Municipal Finance Management Act		
Contributions to organised local government		
Opening balance	3,002,924	2,751,476
Current year subscription / fee	2,943,647	2,916,077
Amount paid - previous years	(2,908,372)	(2,664,629)
	<u>3,038,199</u>	<u>3,002,924</u>
Audit fees		
Opening balance	2,397,822	3,302,310
Current year subscription / fee	8,586,889	7,585,786
Amount paid - current year	(6,243,276)	(5,188,944)
Amount paid - previous years	(2,397,822)	(3,301,330)
	<u>2,343,613</u>	<u>2,397,822</u>
PAYE and UIF		
Opening balance	3,482,884	3,083,361
Current year subscription / fee	44,881,317	41,989,776
Amount paid - current year	(41,085,557)	(38,506,892)
Amount paid - previous years	(3,482,884)	(3,083,361)
	<u>3,795,760</u>	<u>3,482,884</u>
Pension and Medical Aid Deductions		
Opening balance	19,842,637	13,068,842
Current year subscription / fee	82,984,884	82,133,310
Amount paid - current year	(76,112,330)	(62,290,673)
Amount paid - previous years	(19,842,637)	(13,068,842)
	<u>6,872,554</u>	<u>19,842,637</u>
VAT		
VAT receivable	55,506,431	24,771,815

VAT output payables and VAT input receivables are shown in note 7.

All VAT returns have been submitted by the due date throughout the year, but were not paid timeously.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand 2021 2020

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

Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2021:

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
PD Lengoabala	4,717	195,512	200,229
KJ Rathebe	7,530	130,602	138,132
TMH Mofokeng	10,065	160,488	170,553
TI Mofokeng	1,451	8,788	10,239
MJ Radebe	1,118	1,206	2,324
LD Xaba	2,533	18,115	20,648
MS Jacobs	3,989	12,312	16,301
JJ Nhlapo	1,706	15,719	17,425
	33,109	542,742	575,851

30 June 2020	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
PD Lengoabala	4,386	177,469	181,855
KJ Rathebe	8,314	101,188	109,502
TMH Mofokeng	9,942	165,308	175,250
TI Mofokeng	1,388	3,755	5,143
MJ Radebe	1,090	381	1,471
LD Xaba	2,506	8,077	10,583
	27,626	456,178	483,804

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

30 June 2021	Highest outstanding amount	Aging (in days)
PD Lengoabala	200,229	270
KJ Rathebe	138,132	270
TMH Mofokeng	180,056	270
TI Mofokeng	10,239	270
MJ Radebe	2,777	270
LD Xaba	20,648	270
MS Jacobs	16,301	270
JJ Nhlapo	17,425	270
	585,807	2,160

30 June 2020	Highest outstanding amount	Aging (in days)
PD Lengoabala	181,855	270
KJ Rathebe	115,688	270
TMH Mofokeng	175,250	270
TI Mofokeng	5,143	270
MJ Radebe	1,471	120
LD Xaba	10,583	270
	489,990	1,470

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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57. Budget differences

Refer to paragraph 2.4 of the Accounting Officers report for the comparison of actual operating expenditure versus budgeted expenditure.

58. Deviation from supply chain management regulations

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

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

Deviation reason		
Emergency	9,919,699	2,655,955
Impractical	-	2,307,319
Sole provider	21,947	-
	<u>9,941,646</u>	<u>4,963,274</u>

59. Segment information

General information

Identification of segments

The municipality is organised into seven functional directorates for management purposes. The directorates are Corporate Services, Office of the Municipal Manager, Political Office, Financial Services, Public Works, Community Services and Local Economic Development.

Only the Public Works and Community Services directorates have been identified as reportable segments. For management purposes, the municipality is organised, operates and reports to management on the basis of three major functional segments. The segments were organised around the type of service delivered and the target market. Revenue and expenditure relating to these business units are allocated at a transactional level. Management uses these same segments for determining strategic objectives. Cost relating to the governance and administration of the municipality are not allocated to these business units. Segments were aggregated for reporting purposes.

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

The Corporate Services, Office of the Municipal Manager, Political Office, Financial Services and Local Economic Development 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.

Management does monitor performance geographically, but does not present have reliable separate financial information for decision making purpose. Procedure will be put in place to generate this information at a transactional level and in the most cost effective manner.

A measure of assets and liabilities for each reportable segment has not been presented as these amounts are not regularly provided to management. The only measure of asset information that is regularly provided to management is the additions to non-current assets. Accordingly, additions to non-current assets is the only asset measure presented for the reportable segments.

Aggregated segments

The municipality operates throughout the Free State Province in five towns. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout Free State were sufficiently similar to warrant aggregation.

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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59. Segment information (continued)

Types of goods and/or services by segment

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

Reportable segment	Goods and/or services
Public Works	Public Works administration, Project management, Town Planning, Civil Engineering for Roads, Water, Sewerage and Electrical, Mechanical Engineering and general Land and housing
Community Services	Community Services administration, Library, Disaster Management, Fire fighting, Traffic, Parks, Sport and Recreational, Nature Conservation, Cemeteries and Solid Waste removal
Unallocated	The remaining departments, including, Corporate Services, Municipal Manager, Councilors, Finance and Local Economic Development

Dihlabeng Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Notes to the Annual Financial Statements

Figures in Rand

59. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2021

	Public Works	Community Services	Unallocated	Total
Revenue				
External Revenue from non-exchange transactions	289,610,609	1,023,821	134,442,395	425,076,825
External Revenue from exchange transactions	326,919,050	58,374,909	15,155,776	400,449,735
Interest on consumer debtors from exchange and non-exchange transactions	26,959,043	12,565,587	10,250,652	49,775,282
Revenue from transactions with other segments	8,433,619	22,236	17,034,528	25,490,383
Total segment revenue	651,922,321	71,986,553	176,883,351	900,792,225
Entity's revenue				900,792,225
Expenditure				
Employee cost and councilors	93,631,079	75,192,540	171,668,528	340,492,147
Finance cost	-	-	32,094,621	32,094,621
Depreciation	83,631,726	1,539,215	8,301,500	93,472,441
Debt Impairment	102,041,985	45,630,208	27,906,424	175,578,617
Bulk purchases	209,843,576	-	-	209,843,576
Total other costs	59,821,551	16,041,652	112,053,237	187,916,440
Internal Charges	23,381,409	589,378	1,519,596	25,490,383
Total segment expenditure	572,351,326	138,992,993	353,543,906	1,064,888,225
Total segmental surplus/(deficit)				(164,096,000)
Assets				
Additions to Non-current assets	57,538,587	12,425,619	3,290,860	73,255,066
Total assets as per Statement of financial Position				73,255,066

Schedule of external loans as at 30 June 2021

Loan Number	Redeemable	Balance at 30 June 2020	Received during the period	Redeemed written off during the period	Balance at 30 June 2021	Carrying Value of Property, Plant & Equip Rand	Other Costs in accordance with the MFMA Rand
		Rand	Rand	Rand	Rand		
Development Bank of South Africa							
DBSA	61007269 30/06/2025	29,459,593	-	4,718,094	24,741,499	-	-
		29,459,593	-	4,718,094	24,741,499	-	-
Lease liability							
ABSA Bank	90717320 01/04/2023	540,603	-	178,655	361,948	-	-
ABSA Bank	91038728 01/06/2023	556,098	-	172,007	384,091	-	-
		1,096,701	-	350,662	746,039	-	-
Total external loans							
Development Bank of South Africa		29,459,593	-	4,718,094	24,741,499	-	-
Lease liability		1,096,701	-	350,662	746,039	-	-
		30,556,294	-	5,068,756	25,487,538	-	-