Nketoana Local Municipality

Annual Financial Statements
for the year ended 30 June 2023

General Information

Legal form of entity	Local Municipality
Nature of business and principal activities	Nketoana Local Municipality performs the functions as set out in the Constitution, (Act no 105 of 1996)
Mayoral committee	
Executive Mayor	Mokoena MT
Councillors	Dlamini PP Makhoba BM (Speaker) Mofokeng K Mosia MJ Mokoena TE Mofokeng K Muller HMC Mofokeng PP (Chief Whip) Mabaso MA Mofokeng DI Smit A Blignaut M Miya LF Bosman ML Nhlapo LG Molakeng KL Mofokeng LJ
Registered office	Cnr Church and Voortrekker Street Reitz 9810
Business address	Cnr Church and Voortrekker Street Reitz 9810
Postal address	P.O. Box 26 Reitz 9810
Auditors	Auditor-General of South Africa

Index

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

Abbreviations used:

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
WCA	Workers Compensation Assistance
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
DORA	Division of Revenue Act No. 2 of 2013
CIGFARO	Chartered Institute of Government Finance, Audit & Risk Officers
MIG	Municipal Infrastructure Grant

Accounting Officer's Responsibilities and Approval

The accounting officers are required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and are responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officers to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

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

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

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

The accounting officers have reviewed the municipality’s cash flow forecast for the year to 30 June 2024 and, in the light of this review and the current financial position, they are satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

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

The annual financial statements set out on pages 6 to 110, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2023 and were signed on its behalf by:

Accounting Officer

Mokete Nhlapo

Accounting Officer's Report

The accounting officers submit their report for the year ended 30 June 2023.

1. Review of activities

Main business and operations

The municipality is engaged in performing the functions as set out in the constitution, (Act no 105 of 1996) and operates principally in South Africa. During the year there were no major changes in the activities of the business. The main business operations of the municipality is to engage in local government activities, which includes planning and promotion of integrated development planning, land, economic and environmental development and supplying of the following services to the community:

General services - all types of services rendered by the municipality, excluding the supply of housing of the community.

Waste management services - the collection, disposal and recycling of waste.

Electricity services - electricity is bought in bulk from Eskom and distributed to the consumers by the municipality.

Waste water management - collection and purification of waste water.

Water services - supply of water and operates principally in the Free State.

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

Net deficit of the municipality was R 169,829,807 (2022: restated deficit R 189,500,233).

2. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus (deficit) of R 180,159,542 and that the municipality's total assets exceed liabilities by R 180,159,542.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officer continue to procure funding for the ongoing operations for the municipality and that the National Treasury will provide the necessary allocation of funding per the DORA.

Where applicable the municipality may invoke its power to levy additional rates or taxes to enable the municipality to be considered as a going concern even though the municipality will be operational for extended periods with negative net assets.

The municipality is constantly implementing optimal revenue enhancement strategies and credit control and debt collection policy along with cost containment policy to improve liquidity.

3. Subsequent events

The accounting officers are not aware of any matter or circumstance arising since the end of the financial year, that would have an impact on the financial statements.

4. Accounting Officers' interest in contracts

In terms of the Supply Chain Management Policy of the municipality, councillors and officials are prohibited from entering into commercial transactions with the municipality. The Accounting Officer does not have any interest(s) in contracts of the municipality.

The register of declaration of interest is available in the office of the Chief Whip for inspection.

Consistent with the Supply Chain Management Policy of the municipality, none of the councillors or officers entered into any commercial transaction with the municipality during the period under review.

Accounting Officer's Report

5. Accounting policies

The annual financial statements have been prepared in accordance with the prescribed Standards of Generally Recognised Accounting Practices (GRAP), including any interpretations and directives issued by the Accounting Standards Board and in accordance with section 122(3) of the Municipal Finance Management Act, (Act No. 56 of 2003).

6. Accounting Officer

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

Name	Nationality	Changes
Monyane Sefantsi	South African	Contract ended, Wednesday, 12 October 2022
Mokete Nhlapo	South African	Appointed Thursday, 15 December 2022

7. Auditors

Auditor-General of South Africa will continue in office for the next financial period, as mandated by the Constitution.

8. Non-compliance with applicable legislation

The municipality did not in all instances and transactions made during the financial year comply with the prescripts of the MFMA and related legislations.Instances of non-compliance identified include among others the following:

- Non-compliance with SCM Regulations that resulted in Irregular expenditure reported these annual financial statements;
- Monies owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA;
- Unauthorised, Irregular, Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

The annual financial statements set out on pages 6 to 110, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2023 and were signed on its behalf by:

Accounting Officer

Mokete Nhlapo

Statement of Financial Position as at 30 June 2023

Figures in Rand	Notes	2023	2022 Restated*
Assets			
Current Assets			
Inventories	3	18,430,039	17,438,446
Other financial assets	4	750,590	780,125
Other receivables	5	7,980,336	7,980,336
Other statutory receivables	6	781,386	521,986
Receivables from non-exchange transactions	7	8,767,566	8,160,123
Receivables from exchange transactions	8	63,219,370	38,976,447
VAT receivable	9	30,165,892	20,875,837
Cash and cash equivalents	10	1,574,547	2,477
		131,669,726	**94,735,777**
Non-Current Assets			
Biological assets that form part of an agricultural activity	11	131,881	109,854
Investment property	12	122,554,911	115,636,709
Property, plant and equipment	13	860,455,825	904,669,384
Heritage assets	14	529,800	529,800
Other financial assets	4	1,297,816	1,076,647
Deposits	15	4,272,987	4,098,523
		989,243,220	**1,026,120,917**
Total Assets		**1,120,912,946**	**1,120,856,694**
Liabilities			
Current Liabilities			
Borrowings	16	4,117,597	4,878,472
Finance lease obligation	17	-	525,279
Payables from exchange transactions	18	823,435,328	665,820,853
Consumer deposits	19	2,441,045	2,149,726
Employee benefit obligation	20	1,533,722	2,270,311
Unspent conditional grants and receipts	21	3,321,930	10,699,715
Provisions	22	37,835,433	41,773,702
		872,685,055	**728,118,058**
Non-Current Liabilities			
Employee benefit obligation	20	30,844,603	30,545,689
Provisions	22	37,223,746	27,529,646
		68,068,349	**58,075,335**
Total Liabilities		**940,753,404**	**786,193,393**
Net Assets		**180,159,542**	**334,663,301**
Accumulated surplus		180,159,542	334,663,301
Total Net Assets		**180,159,542**	**334,663,301**

* See Note 52

Statement of Financial Performance

Figures in Rand	Notes	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	24	211,198,871	184,325,156
Interest received (trading)	25	135,401,273	92,350,468
Rental of facilities and equipment	26	1,470,734	1,577,884
Licences and permits	27	50,716	46,362
Other income	28	1,347,797	2,721,982
Interest received - investment	29	611,381	370,232
Total revenue from exchange transactions		**350,080,772**	**281,392,084**
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	30	17,216,790	16,196,708
Interest - Property rates	31	6,532,584	4,793,696
Transfer revenue			
Government grants & subsidies	32	188,392,054	146,998,169
Fines, Penalties and Forfeits	33	444,250	538,300
Total revenue from non-exchange transactions		**212,585,678**	**168,526,873**
Total revenue	23	**562,666,450**	**449,918,957**
Expenditure			
Employee related costs	34	(148,703,872)	(144,098,187)
Remuneration of councillors	35	(5,618,137)	(5,161,563)
Depreciation and amortisation	36	(104,777,066)	(54,562,326)
Finance costs	37	(55,715,832)	(31,553,484)
Lease rentals on operating lease	38	(3,291,987)	(4,854,877)
Debt Impairment	39	(236,326,975)	(194,754,308)
Repairs and maintenance	40	(3,727,987)	(13,179,501)
Bulk purchases	41	(76,842,544)	(81,631,642)
Contracted services	42	(16,622,172)	(24,124,156)
General expenses	43	(73,274,928)	(75,601,677)
Total expenditure		**(724,901,500)**	**(629,521,721)**
Operating deficit		**(162,235,050)**	**(179,602,764)**
Gain on disposal of assets and liabilities		-	8,000
Fair value adjustments	44	8,668,857	20,642,140
Actuarial gains/(losses)	20	5,026,038	(3,350,200)
Gain (loss) on biological assets and agricultural produce	45	22,027	(63,812)
Impairment loss	46	(21,311,679)	(27,133,597)
		(7,594,757)	**(9,897,469)**
Deficit for the year		**(169,829,807)**	**(189,500,233)**

* See Note 52

Statement of Changes in Net Assets

Figures in Rand	Accumulated surplus / deficit	Total net assets
Opening balance as previously reported	531,610,673	531,610,673
Adjustments		
Prior year adjustments - Refer to Note 52	(7,447,139)	(7,447,139)
Balance at 01 July 2021 as restated*	**524,163,534**	**524,163,534**
Changes in net assets		
Surplus for the year	(189,500,233)	(189,500,233)
Total changes	(189,500,233)	(189,500,233)
Opening balance as previously reported	358,443,270	358,443,270
Adjustments		
Prior year adjustments - Refer to Note 52	(8,453,921)	(8,453,921)
Restated* Balance at 01 July 2022 as restated*	**349,989,349**	**349,989,349**
Changes in net assets		
Surplus for the year	(169,829,807)	(169,829,807)
Total changes	(169,829,807)	(169,829,807)
Balance at 30 June 2023	**180,159,542**	**180,159,542**

* See Note 52

Cash Flow Statement

Figures in Rand	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Taxation		5,071,062	27,836,821
Sale of goods and services		166,785,338	88,978,030
Grants		180,443,794	151,356,516
Interest income		611,381	370,232
		352,911,575	268,541,599
Payments			
Employee costs		(153,884,334)	(145,885,523)
Suppliers		(71,314,864)	(53,265,409)
Finance costs		(55,715,832)	(31,001,248)
		(280,915,030)	(230,152,180)
Net cash flows from operating activities	48	**71,996,545**	**38,389,419**
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(69,138,321)	(37,348,923)
Cash flows from financing activities			
Repayment of borrowings		(760,875)	(4,161,395)
Finance lease payments		(525,279)	-
Net cash flows from financing activities		**(1,286,154)**	**(4,161,395)**
Net increase/(decrease) in cash and cash equivalents		**1,572,070**	**(3,120,899)**
Cash and cash equivalents at the beginning of the year		2,477	3,123,376
Cash and cash equivalents at the end of the year	10	**1,574,547**	**2,477**

* See Note 52

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Performance						
Revenue						
Revenue from exchange transactions						
Service charges	216,202,000	(16,089,000)	**200,113,000**	211,198,871	**11,085,871**	64.1
Rental of facilities and equipment	1,842,000	-	**1,842,000**	1,470,734	**(371,266)**	64.2
Interest received (trading)	89,880,000	4,000,000	**93,880,000**	135,401,273	**41,521,273**	64.3
Licences and permits	-	1,121,000	**1,121,000**	50,716	**(1,070,284)**	64.4
Other income - (rollup)	2,702,000	-	**2,702,000**	1,347,797	**(1,354,203)**	64.5
Interest received - investment	290,000	-	**290,000**	611,381	**321,381**	64.6
Total revenue from exchange transactions	**310,916,000**	**(10,968,000)**	**299,948,000**	**350,080,772**	**50,132,772**	
Revenue from non-exchange transactions						
Taxation revenue						
Property rates	11,056,000	4,000,000	**15,056,000**	17,216,790	**2,160,790**	64.7
Interest - Taxation revenue	-	-	**-**	6,532,584	**6,532,584**	64.8
Transfer revenue						
Government grants & subsidies	183,333,000	21,472,000	**204,805,000**	188,392,054	**(16,412,946)**	64.9
Fines, Penalties and Forfeits	171,000	367,000	**538,000**	444,250	**(93,750)**	64.10
Total revenue from non-exchange transactions	**194,560,000**	**25,839,000**	**220,399,000**	**212,585,678**	**(7,813,322)**	
Total revenue	**505,476,000**	**14,871,000**	**520,347,000**	**562,666,450**	**42,319,450**	
Expenditure						
Personnel	(151,733,000)	-	**(151,733,000)**	(148,703,872)	**3,029,128**	64.11
Remuneration of councillors	(6,454,000)	-	**(6,454,000)**	(5,618,137)	**835,863**	64.12
Depreciation and amortisation	(60,675,000)	5,000,000	**(55,675,000)**	(104,777,066)	**(49,102,066)**	64.13
Finance costs	(26,500,000)	(4,000,000)	**(30,500,000)**	(55,715,832)	**(25,215,832)**	64.15
Lease rentals on operating lease	-	-	**-**	(3,291,987)	**(3,291,987)**	64.16
Debt Impairment	(157,591,000)	-	**(157,591,000)**	(236,326,975)	**(78,735,975)**	64.17
Repairs and maintenance	-	-	**-**	(3,727,987)	**(3,727,987)**	64.18
Inventory consumed and bulk purchases	(130,642,000)	23,230,000	**(107,412,000)**	(76,842,544)	**30,569,456**	64.19
Contracted Services	(24,927,000)	(5,200,000)	**(30,127,000)**	(16,622,172)	**13,504,828**	64.20
General Expenses	(49,003,000)	(7,014,000)	**(56,017,000)**	(73,274,928)	**(17,257,928)**	64.21
Total expenditure	**(607,525,000)**	**12,016,000**	**(595,509,000)**	**(724,901,500)**	**(129,392,500)**	
Operating deficit	**(102,049,000)**	**26,887,000**	**(75,162,000)**	**(162,235,050)**	**(87,073,050)**	
Fair value adjustments	-	-	**-**	8,668,857	**8,668,857**	64.50
Actuarial gains/losses	-	-	**-**	5,026,038	**5,026,038**	
Gain on biological assets and agricultural produce	-	-	**-**	22,027	**22,027**	64.23
Impairment loss	-	-	**-**	(21,311,679)	**(21,311,679)**	16.14
	-	**-**	**-**	**(7,594,757)**	**(7,594,757)**	
Deficit before taxation	**(102,049,000)**	**26,887,000**	**(75,162,000)**	**(169,829,807)**	**(94,667,807)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	**(102,049,000)**	**26,887,000**	**(75,162,000)**	**(169,829,807)**	**(94,667,807)**	

Reconciliation

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Statement of Financial Position						
Assets						
Current Assets						
Inventories	9,026,000	14,230,000	**23,256,000**	18,430,039	**(4,825,961)**	64.24
Other financial assets	-	-	**-**	750,590	**750,590**	64.25
Other receivables	108,841,000	367,000	**109,208,000**	7,980,336	**(101,227,664)**	64.26
Receivables from non-exchange transactions	-	-	**-**	8,767,566	**8,767,566**	64.27
Statutory receivables	-	-	**-**	781,386	**781,386**	64.28
VAT receivable	-	-	**-**	30,165,892	**30,165,892**	64.29
Consumer debtors	180,533,000	(8,089,000)	**172,444,000**	63,219,370	**(109,224,630)**	64.30
Cash and cash equivalents	(82,180,000)	(72,660,000)	**(154,840,000)**	1,574,547	**156,414,547**	64.31
	216,220,000	**(66,152,000)**	**150,068,000**	**131,669,726**	**(18,398,274)**	
Non-Current Assets						
Biological assets that form part of an agricultural activity	137,000	-	**137,000**	131,881	**(5,119)**	64.32
Investment property	120,740,000	-	**120,740,000**	122,554,911	**1,814,911**	64.33
Property, plant and equipment	1,097,357,000	56,593,000	**1,153,950,000**	860,455,825	**(293,494,175)**	64.34
Intangible assets	6,000	-	**6,000**	-	**(6,000)**	64.35
Heritage assets	578,000	-	**578,000**	529,800	**(48,200)**	64.36
Other financial assets	1,682,000	-	**1,682,000**	1,297,816	**(384,184)**	64.37
Other receivables	244,758,000	-	**244,758,000**	-	**(244,758,000)**	64.38
Deposits	-	-	**-**	4,272,987	**4,272,987**	64.39
	1,465,258,000	**56,593,000**	**1,521,851,000**	**989,243,220**	**(532,607,780)**	
Total Assets	**1,681,478,000**	**(9,559,000)**	**1,671,919,000**	**1,120,912,946**	**(551,006,054)**	
Liabilities						
Current Liabilities						
Borrowings	9,413,000	-	**9,413,000**	4,117,597	**(5,295,403)**	64.40
Payables from exchange transactions	611,228,000	(36,444,000)	**574,784,000**	823,435,332	**248,651,332**	64.42
Consumer deposits	2,097,000	(4,196,000)	**(2,099,000)**	2,441,045	**4,540,045**	64.43
Employee benefit obligation	-	-	**-**	1,533,722	**1,533,722**	64.44
Unspent conditional grants and receipts	-	-	**-**	3,321,930	**3,321,930**	64.45
Provisions	53,402,000	(106,805,000)	**(53,403,000)**	37,835,433	**91,238,433**	64.46
	676,140,000	**(147,445,000)**	**528,695,000**	**872,685,059**	**343,990,059**	
Non-Current Liabilities						
Employee benefit obligation	-	-	**-**	30,844,603	**30,844,603**	64.47
Provisions	58,045,000	-	**58,045,000**	37,223,746	**(20,821,254)**	64.48
	58,045,000	**-**	**58,045,000**	**68,068,349**	**10,023,349**	
Total Liabilities	**734,185,000**	**(147,445,000)**	**586,740,000**	**940,753,408**	**354,013,408**	
Net Assets	**947,293,000**	**137,886,000**	**1,085,179,000**	**180,159,538**	**(905,019,462)**	

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	947,293,000	137,886,000	**1,085,179,000**	180,159,538	**(905,019,462)**	64.49

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

Figures in Rand	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Cash Flow Statement						
Cash flows from operating activities						
Receipts						
Property rates	4,422,000	-	**4,422,000**	5,071,062	**649,062**	64
Service charges	86,481,000	-	**86,481,000**	166,785,338	**80,304,338**	64
Other revenue	3,584,000	1,120,000	**4,704,000**	-	**(4,704,000)**	64
Transfers and Subsidies - Operational	121,020,000	3,774,000	**124,794,000**	125,026,319	**232,319**	64
Transfers and Subsidies - Capital	62,313,000	(17,000,000)	**45,313,000**	55,417,475	**10,104,475**	64
Interest	290,000	-	**290,000**	611,381	**321,381**	64
	278,110,000	**(12,106,000)**	**266,004,000**	**352,911,575**	**86,907,575**	
Payments						
Suppliers and employees	(350,117,000)	-	**(350,117,000)**	(280,915,030)	**69,201,970**	64
Net cash flows from operating activities	**(72,007,000)**	**(12,106,000)**	**(84,113,000)**	**71,996,545**	**156,109,545**	
Cash flows from investing activities						
Decrease (increase) in non-current investments	1,682,000	-	**1,682,000**	-	**(1,682,000)**	64
Capital assets	(54,718,000)	(57,804,000)	**(112,522,000)**	(69,138,321)	**43,383,679**	64
Net cash flows from investing activities	**(53,036,000)**	**(57,804,000)**	**(110,840,000)**	**(69,138,321)**	**41,701,679**	
Cash flows from financing activities						
Repayment of borrowings	-	-	**-**	(760,875)	**(760,875)**	
Finance lease payments	-	-	**-**	(525,279)	**(525,279)**	
Net cash flows from financing activities	**-**	**-**	**-**	**(1,286,154)**	**(1,286,154)**	
Net increase/(decrease) in cash and cash equivalents	(125,043,000)	(69,910,000)	**(194,953,000)**	1,572,070	**196,525,070**	64
Cash and cash equivalents at the beginning of the year	44,545,000	-	**44,545,000**	2,477	**(44,542,523)**	64
Cash and cash equivalents at the end of the year	**(80,498,000)**	**(69,910,000)**	**(150,408,000)**	**1,574,547**	**151,982,547**	

Reconciliation

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

1.1 Presentation currency

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

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 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.

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

Trade receivables

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

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

Impairment testing

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

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 22 - Provisions.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

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 rate as per the credit policy which is linked to the prime interest rate to discount future cash flows.

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.

Accounting Policies

1.3 Significant judgements and sources of estimation uncertainty (continued)

Accounting for adjustments to revenue

Determining whether an adjustment to revenue charged in terms of legislation or similar means is a correction of an error or a change in an accounting estimate requires the application of judgement by management. When adjustments to revenue already recognised arise from new information that becomes known to the municipality, the following considerations are applied to determine whether the adjustment to revenue already recognised is a correction of an error or a change in an accounting estimate:

(a) If information becomes known to the municipality, and the municipality could reasonably have been expected to know of the information and/or the information used was incorrect, the adjustment to revenue is likely to be a correction of an error.

(b) If information becomes known to the municipality, but the municipality could not reasonably have been expected to know of this information when the revenue was charged, the adjustment to revenue is likely to be a change in an accounting estimate.

Accounting for adjustments to revenue that correct an error or prior period error

Following the outcome of the determination processes noted above, and assessing whether this is new information that becomes known to the municipality, the municipality accounts for an adjustment to revenue already recognised, including interest and penalties, as the correction of an error or prior period error where the entity:

(a) has not followed a proper due process to promulgate the tariff, basis, percentage or formula to charge the revenue; and/or

(b) incorrectly applied the tariff, basis, percentage or formula in charging revenue.

Errors discovered within the reporting period which relates to that period are corrected before the annual financial statements are authorised for issue. The principles in GRAP 3 are applied to account for the adjustment to revenue already recognised as a result of the correction of a prior period error.

Accounting for adjustments to revenue as a change in an accounting estimate

Following the outcome of the determination processes noted above, and assessing whether this is new information that becomes known to the municipality, the municipality accounts for any adjustment to revenue already recognised, including interest and penalties, as a change in an accounting estimate if changes occur in the circumstances that led to the recognition of the revenue.

The principles in GRAP 3 are applied to account for a change in an accounting estimate.

Trade and other payables

The municipality recognises trade and other payables (i.e. financial liability) in its statement of financial position when, and only when, the municipality becomes a party to the contractual provisions of the instrument. The municipality recognises financial liabilities using trade date accounting.

When a financial liability is recognised initially, the municipality measures it at its fair value plus, in the case of a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial liability.

The municipality subsequently measures financial liabilities at fair value, amortised cost or cost. The municipality assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of “financial instruments at fair value”, “financial instruments at amortised cost” or “financial instruments at cost”, as per the GRAP standard.

Underlying the definition of fair value is a presumption that the municipality is a going concern without any intention or need to liquidate, to curtail materially the scale of its operations or to undertake a transaction on adverse terms. Fair value is not, therefore, the amount that the municipality would receive or pay in a forced transaction, involuntary liquidation or distress sale. However, fair value reflects the credit quality of the instrument.

1.4 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.

Depreciation is provided on biological assets that form part of an agricultural activity where fair value cannot be determined, to write down the cost, less residual value, by equal instalments over their useful lives as follows:

1.5 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.

1.5 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.

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

Property interests held under operating leases are classified and accounted for as investment property in the following circumstances:

When classification is difficult, the criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of operations, including the nature or type of properties classified as held for strategic purposes, are as follows:

The nature OR type of properties classified as held for strategic purposes are as follows:

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements.

1.6 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.

Accounting Policies

1.6 Property, plant and equipment (continued)

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.

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

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

Item	Depreciation method	Average useful life
Land		Indefinite
Buildings	Straight-line	Maximum of 30 Years
Furniture and fixtures	Straight-line	5 - 7 years
Motor vehicles	Straight-line	5 - 15 years
Office equipment	Straight-line	Maximum of 7 Years
Emergency equipment	Straight-line	5 years
Electricity network	Straight-line	5 - 60 years
Roads and stormwater	Straight-line	Maximum of 30 Years
Leased Assets	Straight-line	3 years
Wastewater network	Straight-line	5 - 70 years
Water network	Straight-line	5 - 70 years

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

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

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

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

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

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

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

Accounting Policies

1.6 Property, plant and equipment (continued)

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 13).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 13).

1.7 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

1.8 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.

1.8 Intangible assets (continued)

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:
- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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	5 - 9 years

1.9 Heritage assets

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

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

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

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

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

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

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

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

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

1.9 Heritage assets (continued)

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

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.

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.

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.

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.

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

1.10 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

- derivatives;
- 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.

1.10 Financial instruments (continued)

Classification

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

Class	Category
Other financial assets	Financial asset measured at amortised cost
Other receivables	Financial asset measured at cost
Receivables from non-exchange transactions	Financial asset measured at amortised cost
Receivables from exchange transactions	Financial asset measured at amortised cost

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

Class	Category
Other financial liabilities(Loans)	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost

1.11 Statutory receivables

Identification

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

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

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

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

The transaction amount for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means.

Recognition

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

The municipality measures statutory receivables after initial recognition using the cost method. Under the cost method, the initial measurement of the receivable is changed subsequent to initial recognition to reflect any:
- interest or other charges that may have accrued on the receivable (where applicable);
- impairment losses; and
- amounts derecognised.

1.11 Statutory receivables (continued)

Accrued interest

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

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

Other charges

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

Impairment losses

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

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

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

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

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

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

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

Derecognition

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

- the rights to the cash flows from the receivable are settled, expire or are waived;
- the municipality transfers to another party substantially all of the risks and rewards of ownership of the receivable; or

1.11 Statutory receivables (continued)

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

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

1.12 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.

Operating leases - lessor

Operating lease revenue is recognised as revenue on another systematic basis -(contractual rental amounts).

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

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

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.

1.13 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.

1.13 Inventories (continued)

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

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

1.14 Impairment of cash-generating assets

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

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

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

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

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

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

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

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

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

1.14 Tax (continued)

Designation

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

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

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

Identification

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

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

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

Value in use

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

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

Basis for estimates of future cash flows

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

Accounting Policies

1.14 Tax (continued)

Composition of estimates of future cash flows

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

Estimates of future cash flows exclude:
- cash inflows or outflows from financing activities; and
- income tax receipts or payments.

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

Discount rate

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

Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or 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.

Accounting Policies

1.14 Tax (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

1.14 Tax (continued)

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.

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

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

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

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

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

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

Redesignation

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

1.15 Impairment of non-cash-generating assets

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.

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 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:

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

- 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.

Designation

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

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

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

The municipality designates an asset as non-cash-generating when its objective is not to use the asset to generate a commercial return but to deliver services.

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

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.

Accounting Policies

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

Value in use

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

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

Depreciated replacement cost approach

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

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

Restoration cost approach

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

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or 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.

Accounting Policies

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

Reversal of an impairment loss

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

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

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

1.16 Employee benefits

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

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

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

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

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

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

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

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

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

Accounting Policies

1.16 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.

Accounting Policies

1.16 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.

1.16 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the 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 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;

1.16 Employee benefits (continued)

- 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).

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.

Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

Accounting Policies

1.16 Employee benefits (continued)

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 amount recognised as a liability for other long-term employee benefits 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.

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.

Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:
- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:
- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

Implementation begins as soon as possible and the period of time to complete implementation is such that material changes to the plan are not likely.

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit 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 benefit.

In the case of an offer made to encourage voluntary redundancy, the measurement of termination benefits shall be based on the number of employees expected to accept the offer.

1.17 Provisions and contingencies

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

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

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

1.17 Provisions and contingencies (continued)

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

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

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

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

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

Provisions are not recognised for future operating surplus (deficit).

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

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

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:
- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 50.

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

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

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

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:
- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;

1.17 Provisions and contingencies (continued)

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

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

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

Decommissioning, restoration and similar liability

Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits or service potential required to settle the obligation, or a change in the discount rate, is accounted for as follows:

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.14 and 1.15.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

The adjusted depreciable amount of the asset is depreciated over its useful life. Therefore, once the related asset has reached the end of its useful life, all subsequent changes in the liability is recognised in surplus or deficit as they occur. This applies under both the cost model and the revaluation model.

The periodic unwinding of the discount is recognised in surplus or deficit as a finance cost as it occurs.

1.18 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

1.18 Commitments (continued)

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

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

1.19 Revenue from exchange transactions

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

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

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

Measurement

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

The amount of revenue arising on a transaction which is statutory (non-contractual) in nature is usually measured by reference to the relevant legislation, regulation or similar means. The fee structure, tariffs or calculation basis specified in legislation, regulation or similar means is used to determine the amount of revenue that should be recognised. This amount represents the fair value, on initial measurement, of the consideration received or receivable for revenue that arises from a statutory (non-contractual) arrangement (see the accounting policy on Statutory Receivables).

Rendering of services

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

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

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

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

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

1.19 Revenue from exchange transactions (continued)

Interest, royalties and dividends

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

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

Interest is recognised 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.

1.20 Revenue from non-exchange transactions

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

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

Control of an asset 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.

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.

1.20 Revenue from non-exchange transactions (continued)

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

Recognition

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

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

Measurement

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

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

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.

Taxes

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

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

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

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

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

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

1.20 Revenue from non-exchange transactions (continued)

Transfers

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

Debt forgiveness and assumption of liabilities

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

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

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.

Bequests

Bequests that satisfy the definition of an asset are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality, and the fair value of the assets can be measured reliably.

Gifts and donations, including goods in-kind

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

Services in-kind

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

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

1.21 Investment income

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

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.

Accounting Policies

1.23 Unauthorised expenditure (continued)

Unauthorised expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

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.

Fruitless and wasteful expenditure is accounted for in line with all relating requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable).

1.25 Irregular expenditure

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

Irregular expenditure is accounted for in line with all related requirements, including, but not limited to, ruling Legislation, Regulations, Frameworks, Circulars, Instruction Notes, Practice Notes, Guidelines etc (as applicable) and in particular the municipality utilised the concepts and requirements contained in Circular 68 of MFMA for the recognition, investigation and disclosure of Irregular expenditure.

Irregular expenditure is measured inclusive of VAT.

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 economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 01/07/2022 to 30/06/2023.

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.

Accounting Policies

1.27 Related parties (continued)

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

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

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

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

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.

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 2023 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
• Guideline: Guideline on Accounting for Landfill Sites	Not yet determined	Unlikely there will be a material impact
• GRAP 25 (as revised): Employee Benefits	Not yet determined	Unlikely there will be a material impact
• iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	Not yet determined	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	Not yet determined	Unlikely there will be a material impact
• GRAP 104 (as revised): Financial Instruments	01 April 2025	Unlikely there will be a material impact
• iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact
• GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Unlikely there will be a material impact

3. Inventories

	2023	2022
Consumable stores	219,893	1,000,718
Water for distribution	195,619	173,856
Unsold Properties Held for Resale	18,014,527	16,263,872
	18,430,039	**17,438,446**

Inventories recognised as an expense during the year	16,650,042	11,643,462

Inventory pledged as security

No inventory was pledged as security for any overdraft facilities or financial liabilities of the municipality.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

4. Other financial assets

Residual interest at cost		
Unlisted shares VKB Agricultural (Pty) Ltd.	5,000	5,000
Preference shares VKB Agricultural (Pty) Ltd.	795,624	424,945
Security shareholders loan VKB Agricultural (Pty) Ltd.	464,273	680,246
	1,264,897	**1,110,191**
At amortised cost		
Bonds Old Mutual - Unlisted Bonds and Stocks: Old Mutual Shares	750,622	716,745
Other financial asset Standard Bank - Money Market account	32,887	29,836
	783,509	**746,581**
Total other financial assets	**2,048,406**	**1,856,772**
Non-current assets		
Residual interest at cost	1,264,929	1,046,811
At amortised cost	32,887	29,836
	1,297,816	**1,076,647**
Current assets		
Residual interest at cost	(32)	63,380
At amortised cost	750,622	716,745
	750,590	**780,125**

5. Other receivables

Unauthorised payments to suppliers	7,980,336	7,980,336
Current assets	7,980,336	7,980,336
Current assets	7,980,336	7,980,336

During the 2014/2015 financial year, the municipality's financial reporting system was fraudulently manipulated to effect unauthorised payments to then suppliers/creditors for work not done. A case of fraud was opened with the Hawks and an investigation is still currently underway. A receivable was raised following council decision to investigate the matter and recover the monies lost to the municipality.

Subsequently, this matter was investigated, and no substantiating evidence could be obtained in this regard. This item also formed part of the disclaimer paragraphs in the prior year audit report. This item was taken to council, and it was approved to be written off. Due to the nature of the error, the accounting treatment was done in accordance with GRAP, and the removal of the other receivables were done retrospectively and included in the prior period error note.

6. Other statutory receivables

Traffic fines	781,386	521,986
Current assets	781,386	521,986

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

7. Receivables from non-exchange transactions

Gross balances		
Consumer debtors - Rates	76,617,716	63,819,404

Less: Allowance for impairment		
Consumer debtors - Rates	(67,850,150)	(55,659,281)

Net balance		
Consumer debtors - Rates	8,767,566	8,160,123

Rates		
Current (0 -30 days)	1,969,690	1,670,890
31 - 60 days	1,434,793	1,249,030
61 - 90 days	1,364,811	1,102,437
91 - 365 days	10,481,207	8,644,140
> 365 days	61,367,215	51,152,907
Impairment	(67,850,150)	(55,659,281)
	8,767,566	**8,160,123**

8. Receivables from exchange transactions

Gross balances		
Electricity	47,573,574	32,044,771
Water	332,761,331	286,254,347
Sewerage	172,632,128	140,684,553
Refuse	182,848,594	158,688,321
Sundry debtors	269,296,668	208,928,773
Housing rental	3,816,911	2,513,635
	1,008,929,206	**829,114,400**

Less: Allowance for impairment		
Electricity	(32,534,627)	(22,864,774)
Water	(311,585,162)	(272,552,474)
Sewerage	(159,655,978)	(135,577,389)
Refuse	(177,022,219)	(153,319,318)
Sundry debtors	(258,423,411)	(200,413,050)
Housing rental	(6,488,439)	(5,410,948)
	(945,709,836)	**(790,137,953)**

Net balance		
Electricity	15,038,947	9,179,997
Water	21,176,169	13,701,873
Sewerage	12,976,150	5,107,164
Refuse	5,826,375	5,369,003
Sundry debtors	10,873,257	8,515,723
Housing rental	(2,671,528)	(2,897,313)
	63,219,370	**38,976,447**

Figures in Rand	2023	2022

8. Receivables from exchange transactions (continued)

Electricity		
Current (0 -30 days)	5,763,819	7,924,292
31 - 60 days	3,607,619	848,463
61 - 90 days	4,314,905	621,246
91 - 365 days	14,692,122	3,387,213
> 365 days	19,701,240	17,616,157
Less: Allowance for impairment	(30,369,336)	(22,864,774)
	17,710,369	**7,532,597**

Water		
Current (0 -30 days)	9,767,660	7,626,384
31 - 60 days	8,119,643	6,202,953
61 - 90 days	8,749,326	5,776,906
91 - 365 days	56,910,241	45,251,035
> 365 days	249,315,705	221,397,069
Less: Allowance for impairment	(311,569,975)	(272,552,474)
	21,292,600	**13,701,873**

Sewerage		
Current (0 -30 days)	5,953,554	3,361,877
31 - 60 days	5,014,423	2,622,655
61 - 90 days	5,199,897	2,504,910
91 - 365 days	30,052,453	18,247,191
> 365 days	126,411,802	113,947,920
Less: Allowance for impairment	(158,890,235)	(135,577,389)
	13,741,894	**5,107,164**

Refuse		
Current (0 -30 days)	4,305,004	3,309,901
31 - 60 days	3,632,782	2,915,499
61 - 90 days	3,569,923	2,783,712
91 - 365 days	28,486,092	20,708,308
> 365 days	142,854,793	128,970,901
Less: Allowance for impairment	(176,669,142)	(153,319,318)
	6,179,452	**5,369,003**

Sundry debtors		
Current (0 -30 days)	7,825,855	4,735,986
31 - 60 days	7,167,864	4,580,041
61 - 90 days	6,936,328	4,278,204
91 - 365 days	51,610,188	29,682,455
> 365 days	195,749,899	164,732,541
Less: Allowance for impairment	(256,705,038)	(200,413,050)
	12,585,096	**7,596,177**

Housing rental		
Current (0 -30 days)	123,216	103,397
31 - 60 days	122,296	99,547
61 - 90 days	116,192	97,175
91 - 365 days	1,197,776	740,275
> 365 days	2,257,431	1,473,241
Less: Allowance for impairment	(3,219,403)	(5,410,948)
	597,508	**(2,897,313)**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

8. Receivables from exchange transactions (continued)

Summary of debtors by customer classification

Consumers		
Current (0 -30 days)	23,082,787	17,209,763
31 - 60 days	19,752,120	15,707,528
61 - 90 days	19,702,636	14,768,644
91 - 120 days	18,961,599	14,142,280
121 - 365 days	135,822,396	96,847,898
> 365 days	704,750,787	604,993,128
	922,072,325	763,669,241
Less: Allowance for impairment	(893,903,899)	(758,200,190)
	28,168,426	**5,469,051**

Industrial/ commercial		
Current (0 -30 days)	9,751,048	8,908,816
31 - 60 days	7,286,009	693,761
61 - 90 days	8,436,064	510,613
91 - 120 days	6,853,335	504,462
121 - 365 days	17,304,512	3,145,870
> 365 days	23,362,651	19,901,164
	72,993,619	33,664,686
Less: Allowance for impairment	(40,227,643)	(29,653,945)
	32,765,976	**4,010,741**

National and provincial government		
Current (0 -30 days)	905,273	631,629
31 - 60 days	626,497	560,862
61 - 90 days	747,871	480,498
91 - 120 days	638,934	428,104
121 - 365 days	3,368,098	1,958,774
> 365 days	8,177,432	6,696,961
	14,464,105	10,756,828
Less: Allowance for impairment	(3,291,587)	(2,283,818)
	11,172,518	**8,473,010**

Total		
Current (0 -30 days)	33,739,108	26,750,208
31 - 60 days	27,664,626	16,962,151
61 - 90 days	28,886,571	15,759,755
91 - 120 days	26,453,868	15,074,874
121 - 365 days	156,495,005	101,952,543
> 365 days	736,290,869	631,591,253
	1,009,530,047	808,090,784
Less: Allowance for impairment	(937,423,129)	(790,137,953)
	72,106,918	**17,952,831**

Less: Allowance for impairment		
For all debtors aged 30 to over 365 days	(937,423,129)	(790,137,953)

Reconciliation of allowance for impairment		
Balance at beginning of the year	(790,137,953)	(644,127,093)
Contributions to allowance	(147,285,176)	(146,010,860)
	(937,423,129)	**(790,137,953)**

Figures in Rand	2023	2022

9. VAT receivable

VAT	30,165,892	20,875,837

VAT is payable/receivable on the receipts and payment basis. Only once payment is received from debtors, VAT is paid over to SARS. The amount presented in this note includes VAT accounted for on an accrual basis thus not recoverable from SARS.

10. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	38,736	132,686
Bank balances	1,535,811	(130,209)
	1,574,547	**2,477**

Nketoana Local Municipality has an overdraft facility in place of R500,000, with ABSA (Account Number: 2170142538). The interest rate payable on the overdraft facility is linked to the prime interest lending rate and is variable. There are no pledges or securities linked to this overdraft facility. At year end, the overdraft facility was not used.

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2023	30 June 2022	30 June 2021	30 June 2023	30 June 2022	30 June 2021
ABSA - Operating account - 2170560119	139,902	(427,129)	(402,017)	1,501,367	196,481	1,628,146
ABSA - Banktel Account - 2170142538	20,633	41,318	856,420	(36,294)	(378,988)	756,625
ABSA - Call account - 9074155973	70,711	52,271	605,892	70,711	52,271	605,892
Total	**231,246**	**(333,540)**	**1,060,295**	**1,535,784**	**(130,236)**	**2,990,663**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

11. Biological assets that form part of an agricultural activity

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Game	131,881	-	131,881	109,854	-	109,854

Reconciliation of biological assets that form part of an agricultural activity - 2023

	Opening balance	Gains or losses arising from changes in fair value	Total
Game	109,854	22,027	131,881

Reconciliation of biological assets that form part of an agricultural activity - 2022

	Opening balance	Gains or losses arising from changes in fair value	Total
Game	173,666	(63,812)	109,854

Non-financial information

Quantities of each biological asset		
Springbuck	4	8
Blesbok	39	24
Zebra	2	2
Wildebeest	1	2
	46	**36**

12. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	122,554,911	-	122,554,911	115,636,709	-	115,636,709

Reconciliation of investment property - 2023

	Opening balance	Fair value adjustments	Total
Investment property	115,636,709	6,918,202	122,554,911

Reconciliation of investment property - 2022

	Opening balance	Fair value adjustments	Total
Investment property	97,921,873	17,714,836	115,636,709

Pledged as security

No investment property assets are pledged as security.

There are no restrictions on the remittance of revenue and proceeds on disposals relating to investment property.

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

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.

Determination of fair value of investment property

Land and buildings are appraised by an external Independent Property Valuer or an expert with the requisite competence to undertake such appraisals in accordance with the requirements of the applicable standards of GRAP annually.

In estimating the fair value of all investment properties, their current use equates to the highest and best use.

The value of investment property comprising of land and building was determined by using a combination of valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparable market transactions. The preferred valuation methodology applied to vacant land was that of comparable market-related sales based on use, location and extent. In cases where no reasonable comparable sales were available the discounted cash flow methodology was used based on market-related rentals for similar properties. Investment properties were fair valued by Fezi Auditors and Consultants. M Mokoena as valuator, a registered professional accountant (SA), registration number: 42067.”

Amounts recognised in surplus or deficit

	2023	2022
Rental revenue from Investment property	1,470,734	1,577,884

Notes to the Annual Financial Statements

Figures in Rand

13. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	7,467,185	-	7,467,185	7,467,185	-	7,467,185
Buildings	45,705,110	(22,883,607)	22,821,503	36,712,605	(22,883,607)	13,828,998
Transport assets	8,960,854	2,557,022	11,517,876	10,849,967	(4,637,737)	6,212,230
Infrastructure	1,913,024,011	(1,186,095,239)	726,928,772	1,845,677,727	(1,068,981,074)	776,696,653
Community buildings and facilities	228,430,989	(133,667,304)	94,763,685	219,767,039	(133,667,304)	86,099,735
Other property, plant and equipment	4,908,634	(10,595,961)	(5,687,327)	14,854,299	(11,651,187)	3,203,112
Solid waste disposal	66,675,503	(64,194,388)	2,481,115	69,561,046	(58,679,086)	10,881,960
Leased assets	2,471,389	(2,308,373)	163,016	2,471,389	(2,191,878)	279,511
Total	**2,277,643,675**	**(1,417,187,850)**	**860,455,825**	**2,207,361,257**	**(1,302,691,873)**	**904,669,384**

13. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Other changes, movements	Depreciation	Impairment loss	Total
Land	7,467,185	-	-	-	-	7,467,185
Buildings	13,828,998	-	8,992,505	-	-	22,821,503
Transport assets	6,212,230	-	5,551,059	(245,413)	-	11,517,876
Infrastructure	776,696,653	67,275,226	-	(100,610,278)	(16,432,829)	726,928,772
Community	86,099,735	885,172	10,573,271	(2,794,493)	-	94,763,685
Other property, plant and equipment	3,203,112	977,923	(9,494,425)	(373,937)	-	(5,687,327)
Solid waste disposal	10,881,960	-	(2,885,545)	(636,450)	(4,878,850)	2,481,115
Leased assets	279,511	-	-	(116,495)	-	163,016
	904,669,384	**69,138,321**	**12,736,865**	**(104,777,066)**	**(21,311,679)**	**860,455,825**

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Transfers received	Prior period error correction	Depreciation	Impairment loss	Total
Land	7,467,185	-	-	-	-	-	7,467,185
Buildings	15,207,496	-	-	-	(801,797)	(576,701)	13,828,998
Transport assets	4,109,967	3,289,970	-	-	(992,755)	(194,952)	6,212,230
Infrastructure	803,120,107	31,485,686	-	(857,440)	(50,145,284)	(6,906,416)	776,696,653
Community	97,765,747	1,225,105	(53,390)	-	(4,961,427)	(7,876,300)	86,099,735
Other property, plant and equipment	3,423,686	1,348,162	-	-	(441,249)	(1,127,487)	3,203,112
Solid waste disposal	23,494,601	-	-	-	(975,612)	(11,637,029)	10,881,960
Leased assets	705,481	-	-	-	(425,970)	-	279,511
	955,294,270	**37,348,923**	**(53,390)**	**(857,440)**	**(58,744,094)**	**(28,318,885)**	**904,669,384**

Pledged as security

None of the property, plant and equipment above is pledged as security for overdraft or financial liabilities of the municipality.

Figures in Rand	2023	2022

13. Property, plant and equipment (continued)

Assets subject to finance lease (Net carrying amount)

Other leased assets	163,016	279,511

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

Cumulative expenditure recognised in the carrying value of property, plant and equipment

Community	15,809,519	14,924,347
Solid waste disposal	668,921	668,921
Infrastructure	250,467,325	183,629,189
	266,945,765	**199,222,457**

Carrying value of property, plant and equipment that is taking a significantly longer period of time to complete than expected or that were halted during the year:

Petrus Steyn to Reitz Pipeline - 15km Water Pipeline The 42km pipeline is build in phases and the 15km phase is almost complete and will be capitalised upon completion of all other phases. The project is delayed due to contractual dispute with contractor and the contract with consultant was terminated. A new consultant was appointed to oversee the completion of the project.	33,505,418	33,505,418
Petrus Steyn to Reitz Pipeline - 5km Water Pipeline The 42km pipeline is build in phases and the 5km phase is almost complete and will be capitalised upon completion of all other phases.	8,831,853	8,831,853
Petrus Steyn to Reitz Pipeline - 10km Water Pipeline The 42 km pipeline is build in phases and the 10km pipe line is practically completed and will be capitalised upon completion of all other phases of the pipeline.	17,436,342	17,436,342
Mamafubedu: Sewer and recycled network and toilet connection project (This project was halted during the year) he project has taken significantly longer period of time to complete than expected. The project value is R 36 237 398 and was funded by MIG for R 29 957 500. Construction has been halted as there has no been any activity for over five years.	22,807,049	22,807,049
	82,580,662	**82,580,662**

Reconciliation of Work-in-Progress 2023 included in property, plant and equipment

	Included within Infrastructure	Included within Community	Solid waste disposal	Total
Opening balance	183,629,189	14,924,347	668,921	199,222,457
Additions/capital expenditure	67,275,226	885,172	-	68,160,398
Transferred to completed items	(437,090)	-	-	(437,090)
	250,467,325	**15,809,519**	**668,921**	**266,945,765**

Reconciliation of Work-in-Progress 2022 included in property, plant and equipment

	Included within Infrastructure	Included within Community	Solid waste disposal	Total
Opening balance	177,803,254	13,699,242	668,921	192,171,417
Additions/capital expenditure	29,804,357	1,225,105	-	31,029,462
Transferred to completed items	(23,978,422)	-	-	(23,978,422)
	183,629,189	**14,924,347**	**668,921**	**199,222,457**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

13. 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 - PPE	3,727,987	13,179,501

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.

14. Heritage assets

	2023			2022		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Heritage assets	529,800	-	529,800	529,800	-	529,800

Reconciliation of heritage assets 2023

	Opening balance	Total
Heritage assets	529,800	529,800

Reconciliation of heritage assets 2022

	Opening balance	Total
Heritage assets	529,800	529,800

15. Deposits

Current deposit	4,272,987	4,098,523

The long-term deposit is held by Eskom for the upgrade done by the municipality to the electricity network.

The long-term deposit bears interest of 5.3% per annum. If the municipality decides to cancel the service agreement with Eskom then the deposit amount will be paid back. If the account to which the deposits relate are in arrears then the deposits will be appropriated towards the specific account.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

16. Borrowings

At amortised cost		
Bank loan	4,117,597	4,878,472
The Development Bank of Southern Africa Limited		

Development Bank of South Africa
Loan:
The original loan amount was R9 600 000 repayable over a 20 year period with a redemption date of 31 December 2024. On 14 August 2017 an agreement was made between DBSA and the Municipality for repayment of outstanding debt and arrears.

DBSA approved the release of collateral ceded to DBSA held by Standard Bank as security for the loans as partial repayment.

The outstanding balance including arrears of the two loans as disclosed below be consolidated into one loan with the same interest rate of 9.26%.

34 month payment arrangement of R 200 000 was agreed by the Municipality to settle the remaining balance of the loan.

Current liabilities		
At amortised cost	4,117,597	4,878,472

Defaults and breaches

The loan from DBSA with principal amount of R7 243 796 (2022: R7 243 796) was in default as a result of not meeting capital repayment requirements as per the contractual arrangements. This was due to cash flow constraints and timing delays. The default has not been rectified before annual financial statements were authorised for issue and resulted in incurrence of Fruitless and Wasteful Expenditure which is disclosed in Note 52.

17. Finance lease obligation

Minimum lease payments due		
- within one year	-	525,279
Present value of minimum lease payments due		
- within one year	-	525,279

It is municipality policy to lease certain equipment under finance leases(printers).

The average lease term was 3 years and the average effective borrowing rate was 17% (2022: 17%).

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.

18. Payables from exchange transactions

Trade payables	790,662,155	630,164,372
Payments received in advanced	10,511,261	10,796,578
Accrued leave pay	8,846,710	11,533,488
Accrued bonus	3,110,194	2,759,051
Salary control account	9,206,450	12,416,795
Unallocated deposits received	1,098,558	1,040,276
Other creditors and accruals	-	(2,889,707)
	823,435,328	**665,820,853**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

19. Consumer deposits

Electricity and water	2,379,858	2,098,638
Housing rental	61,187	51,088
	2,441,045	**2,149,726**

20. Employee benefit obligations

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

Carrying value		
Present value of the employee benefit obligation-wholly unfunded	(32,378,325)	(32,816,000)
Non-current liabilities	(30,844,603)	(30,545,689)
Current liabilities	(1,533,722)	(2,270,311)
	(32,378,325)	**(32,816,000)**

Carrying value per benefit		
Long service awards	(7,051,739)	(6,382,000)
Medical aid benefits	(25,326,586)	(26,434,000)
	(32,378,325)	(32,816,000)

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

Opening balance	32,816,000	26,268,124
Benefits paid	(328,637)	(1,031,192)
Net expense recognised in the statement of financial performance	(109,038)	7,579,068
	32,378,325	**32,816,000**

Net expense recognised in the statement of financial performance

Current service cost	1,897,000	1,242,000
Interest cost	3,020,000	2,986,868
Actuarial (gains) losses	(5,026,038)	3,350,200
	(109,038)	**7,579,068**

Calculation of actuarial gains and losses

Actuarial (gains) losses – Obligation	(5,026,038)	3,350,200

20. Employee benefit obligations (continued)

Long service bonus awards (LSA)

The long service awards liability arises from the municipality being a party to the Collective Agreement on Conditions of Service for the Free State Division of SALGBC.

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

Long Service Awards Liabilities
The expected value of each employee's long service award is projected to the next interval by allowing for future salary growth.

Long service benefits are awarded in the form of leave days and a percentage of salary. The Valuer has converted the awarded leave days into a percentage of the employee's annual salary and the conversion is based on a 250 working day year.

The calculated award values are discounted at the assumed discount interest rate to the date of calculation. The Valuer also allowed for mortality, retirements and withdrawals from service as set out in the next section of this report. The accrued liability is determined on the basis that each employee's long service benefit accrues uniformly over the working life of an employee up to the end of the interval at which the benefit becomes payable.

Further, the Valuer assumed that the current policy for awarding long service awards remains unchanged in the future. The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

The liability is unfunded.

Valuation Assumptions

In estimating the liability for long service leave benefits a number of assumptions are required. GRAP 25 places the responsibility on management to set these assumptions, as guided by the principles set out in GRAP 25 and in discussion with the actuary.

The most relevant actuarial assumptions used in the valuation are as follows.

Financial variable	**Assumed value 2023**	**Assumed value 2022**
Discount rate	10.73%	10.43%
CPI (Consumer Price Inflation)	5.38%	7.22%
Normal Salary Increase Rate	6.38%	8.22%
Net Effective Discount Rate	4.09%	2.04%

Post retirement medical subsidy

The Projected Unit Credit funding method has been used to determine the past-service liabilities at the valuation date and the projected annual expense in the year following the valuation date.

The expected value of each employee and their spouse's future medical aid subsidies is projected by allowing for future medical inflation. The calculated values are then discounted at the assumed discount interest rate to the present date of valuation (calculation). We also allowed for mortality, retirements and withdrawals from service as set out below. The accrued liability is determined on the basis that each employee's medical aid benefit accrues uniformly over the working life of an employee up until retirement. Further it is assumed that the current policy for awarding medical aid subsidies remains unchanged in the future. It is assumed that 100% of all active members on medical aid will remain on medical aid once they retire. It is also assumed that all active members will remain on the same medical aid option at retirement.

As at the valuation date, the medical aid liability of the Municipality was unfunded, i.e., no dedicated assets have been set aside to meet this liability. We therefore did not consider any assets as part of our valuation.

Figures in Rand	2023	2022

20. Employee benefit obligations (continued)

Key assumptions used

Assumptions used at the reporting date:

Consumer price inflation (C) a	7.71 %	9.02 %
Discount rates used	13.70 %	13.16 %
Health care cost inflation (H)	9.21 %	10.52 %
Net discount rate ((1+D)/(1+H)-1)	4.10 %	2.39 %

Discount rate:
We use the nominal and real zero curves as at 30 June 2023 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period. For example, a liability which pays out in 1 year will be discounted at a different rate than a liability which pays out in 30 years.

The Net Effective Discount Rate is different for each relevant time period of the yield curves' various durations and therefore the Net Effective Discount Rate is based on the relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Salary Inflation for each relevant time period.

Medical Aid Inflation:
The Medical Aid Contribution Inflation rate was set with reference to the past relationship between the (yield curve based) Discount Rate for each relevant time period and the (yield curve based) Medical Aid Contribution Inflation for each relevant time period.

It is assumed that medical aid contribution increases would out-strip general inflation by 1,5% per annum over the foreseeable future.

Average Retirement Age:
The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements. This assumption had no impact on this valuation, since there were no in-service members eligible to receive the benefits.

Normal Retirement Age:
The normal retirement age (NRA) for all active employees was assumed to be 65 years.

Mortality Rates:
Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables, which was rated downwards 2 years. This is consistent to the assumptions made by the previous Actuaries. No explicit assumption was made about additional mortality or health care costs due to AIDS.

Spouses and Dependants:
It is assumed that the marital status of members who are currently married will remain the same up to retirement. It was also assumed that 90% of all single employees would be married at retirement with no dependent children. Where necessary it was assumed that female spouses would be three years younger than their male spouses at retirement and vice versa.

20. Employee benefit obligations (continued)

Continuation at Retirement:
In line with the previous valuation, it has assumed that 90% of eligible employees would continue their benefit in retirement decrements.

Withdrawal
A table setting out the assumed rates of withdrawal from service is set out below:

Age Band	Withdrawal Rate Males	Withdrawal Rate Females
20 - 24	16%	24%
25 - 29	12%	18%
30 - 34	10%	15%
35 - 39	8%	10%
40 - 44	6%	6%
45 - 49	4%	4%
50 - 54	2%	2%
55 - 59	0%	0%
60+	0%	0%

Sensitivity analysis

Medical aid inflation:
The cost of the subsidy after retirement is dependent on the increase in the contributions to the medical aid scheme before and after retirement. The rate at which these contributions increase will thus have a direct effect on the liability of future retirees.

We have tested the effect of a 1% p.a. change in the medical aid inflation assumption. The effect is as follows:

	(-1%) Medical aid inflation	**Valuation assumption**	**(+1%) Medical aid inflation**
Total Accrued Liability	R22,674,517	R25,326,586	R28,491,187
Interest Cost	R1,377,894	R1,571,716	R1,807,897
Service Cost	R3,058,399	R3,421,511	R3,854,841

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

21. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
Local Government Sector Education Training Authority Grant	24,561	24,561
Integrated National Electrification Programme Grant	1,347	-
Municipal Infrastructure Grant	3,816,970	2,978,102
Expanded Public Works Programme Grant	(625,333)	-
Local Government Financial Management Grant	(125,333)	(66,000)
Water Services Infrastructure Grant	(1,546,009)	5,987,325
Installation of Water Meters Grant	1,775,727	1,775,727
	3,321,930	**10,699,715**

Movement during the year

Balance at the beginning of the year	10,699,715	8,450,058
Additions during the year	68,321,269	46,002,826
Income recognition during the year	(67,481,054)	(37,185,169)
Offset against Equitable share	(8,218,000)	(6,568,000)
	3,321,930	**10,699,715**

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

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

See note 32 for reconciliation of grants from National/Provincial Government.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

22. Provisions

Reconciliation of provisions - 2023

	Opening Balance	Change in engineering priced quotations and assumptions	Effect of change in discount rate	Changes in site lives, based on more accurate statistics	Interest cost	Total
Environmental rehabilitation	63,206,312	(4,728,357)	(16,547,669)	(887,899)	27,919,756	68,962,143
Legal proceedings	6,097,036	-	-	-	-	6,097,036
	69,303,348	**(4,728,357)**	**(16,547,669)**	**(887,899)**	**27,919,756**	**75,059,179**

Reconciliation of provisions - 2022

	Opening Balance	Change in engineering priced quotations and assumptions	Effect of change in discount rate	Changes in site lives, based on more accurate statistics	Interest cost	Total
Environmental rehabilitation	60,641,430	(21,174,635)	10,474,264	(12,148,268)	25,413,521	63,206,312
Legal proceedings	6,097,036	-	-	-	-	6,097,036
	66,738,466	**(21,174,635)**	**10,474,264**	**(12,148,268)**	**25,413,521**	**69,303,348**

	2023	2022
Non-current liabilities	37,223,746	27,529,646
Current liabilities	37,835,433	41,773,702
	75,059,179	**69,303,348**

Methodology

22. Irregular expenditure (continued)

The approach to the assessment was to gather as much information as available on each site. The costing model is based on the Minimum Requirements for Waste Disposal by Landfill of the Department of Water Affairs (1998), as amended by more recent regulations. The liability was calculated by using this costing model, which includes costs associated with:

1. Pre-closure planning and approvals;
2. Final rehabilitation and closure; and
3. 30 years post-closure monitoring.

The Landfill Closure and Rehabilitation Costing Methodology (LCRCM) consists of five components:

1. The elements that make up the final rehabilitation and closure costs.
2. Basic unit costs for each cost element.
3. Variables that have an impact on one or more cost elements and result in a loading (positive or negative) on the basic unit cost.
4. A set of algorithms that define the calculation of the amount of the various cost elements by describing the relationship between basic unit costs and the impact of the variables thereon.
5. Discounting of the rehabilitation and closure costs.

The costs are based on actual costs of rehabilitation and closure operations and are reviewed annually to make provision for price increases. A number of variables impact the eventual rehabilitation and closure costs by either increasing or decreasing the basic unit cost.

Accounting Standard GRAP19 defines the determination of the investment return assumption to be used as the rate that can be determined by reference to market yields (at the balance sheet date) on government bonds. The currency and term of the government bonds should be consistent with the currency and estimated term/life of the landfill site.

The discount rate was deduced from the average of the Zero-Coupon Yield Curve (Nominal Bond) over the entire durations applicable in the future. The annualised long term discount rate as at 30 June 2023 was 12.62% p.a.. The consumer price inflation of 7.39% p.a. was obtained from the differential between the averages of the Nominal Bond of 12.62% p.a. and the Real Bond 4.87% p.a. (Zero Yield Curves).

The bond rates were obtained from the Bond Exchange of South Africa after the market closed on 30 June 2023. OPES had no access to topographic surveys of the sites. Site boundaries were noted by visual inspections that were done on the day of the audits, and as per indication given by the Waste Manager of Nketoana Municipality. Landfill site life for all operational sites was determined by method A as outlined in DWA Minimum requirements 2nd edition, 1998.

Airspace utilisation is calculated from the IRD. The IRD, expressed in T/day, is multiplied by 260 days (based on a 5 day week) to determine the annual tonnage of waste. By dividing this figure by the average density of the waste (between 0,75 T/m3 to 1,20 T/m3 depending on waste type and compaction efficiency), the volume of waste to be deposited in the first year is determined. By multiplying this volume by 5/4, the total airspace utilisation for the first year is obtained. Airspace utilisation for subsequent years is obtained by escalating the IRD for each year.

The landfill site life is arrived at by matching the available airspace volume for the landfill, arrived at in 1 above, with the cumulative airspace utilisation, in 2 above. The following assumptions were used. No final waste height body modelling of the sites was done as no final end use plan or operating plan was available.

Status of landfill sites

22. Irregular expenditure (continued)

Lindley Waste Disposal site:	
License Number	B33/2/360/3/P47
Date issued	13/01/1993
Approximate size of the landfill	Approximate size of landfill estimated at 6 Ha. There also seems to be illegal dumping over an area of approximately 0,6 Ha directly north of the site
Approximate remaining life (years)	3 years
Petrus Steyn Waste Disposal site:	
License Number	None
Date issued	None
Approximate size of the landfill	None
Approximate remaining life (years)	None
Closure license	(WML/BAR/05/2015) dated 16 September 2016
Reitz Waste Disposal Site:	
License Number	WML/1B/12/11
Date issued	November 2012
Approximate size of the landfill	Approximate size of landfill estimated at 9 Ha
Approximate remaining life (years)	6 years

Financial Assumptions used

The following assumptions were used in the financial calculations for closure and post closure:

- The discount rate used as at 30 June 2023 was 12.62%.

- Consumer price inflation was used. The CPI rate used was 7.39%;

- The nominal and real zero curves as at 30 June 2023 supplied by the JSE to determine our discounted rates and CPI assumptions at each relevant time period.

- The net discount rate used was 4.87%.;

- OPES had no access to topographic surveys of the sites. Site boundaries were noted by visual inspections that were done on the day of the audits, and as per indication given by the Waste Manager of Nketoana Municipality. Landfill site life for all operational sites was determined by method A as outlined in DWA Minimum requirements 2nd edition, 1998.

Legal proceedings provisions

There was judgement from a case that deemed the municipality liable against Mr Lekota and the municipality raised provision for the expected outflow.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

23. Revenue

Service charges	211,198,871	184,325,156
Rental of facilities and equipment	1,470,734	1,577,884
Interest received (trading)	135,401,273	92,350,468
Licences and permits	50,716	46,362
Other income	1,347,797	2,721,982
Interest received - investment	611,381	370,232
Property rates	17,216,790	16,196,708
Government grants & subsidies	188,392,054	146,998,169
Fines, Penalties and Forfeits	444,250	538,300
	556,133,866	**445,125,261**

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

Service charges	211,198,871	184,325,156
Rental of facilities and equipment	1,470,734	1,577,884
Interest received (trading)	135,401,273	92,350,468
Licences and permits	50,716	46,362
Other income	1,347,797	2,721,982
Interest received - investment	611,381	370,232
	350,080,772	**281,392,084**

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

Taxation revenue		
Property rates	17,216,790	16,196,708
Transfer revenue		
Government grants & subsidies	188,392,054	146,998,169
Fines, Penalties and Forfeits	444,250	538,300
	206,053,094	**163,733,177**

24. Service charges

Sale of electricity	73,942,220	74,687,166
Sale of water	67,252,262	59,840,002
Sewerage and sanitation charges	41,904,870	25,738,029
Refuse removal	28,099,519	24,059,959
	211,198,871	**184,325,156**

25. Interest received (trading)

Interest received - Electricity	3,207,210	1,691,620
Interest received - Water	28,418,352	20,828,826
Interest received - Sewer and sanitation	14,278,627	10,356,993
Interest received - Refuse	15,707,961	11,774,275
Interest received - Rental and sundry	73,789,123	47,698,754
	135,401,273	**92,350,468**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

26. Rental of facilities and equipment

Premises		
Rental of sites	1,443,711	1,553,205
Facilities and equipment		
Rental of facilities	27,023	24,679
	1,470,734	**1,577,884**

27. Licences and permits

Road and Transport	50,716	46,362

28. Other income

Insurance claims	33,930	-
Cemetery and burial fees	640,256	2,398,987
Tender documents	470,704	209,443
Building plans and clearance certificates	49,043	42,459
Handling fees (connection and disconnection)	69,032	52,290
Incidental cash surplus	84,832	18,803
	1,347,797	**2,721,982**

29. Investment revenue

Interest revenue		
Bank	611,381	370,232

Figures in Rand	2023	2022

30. Property rates

Rates received

Residential properties-Developed	45,653,690	44,032,742
Less: Income forgone	(28,436,900)	(27,836,034)
	17,216,790	**16,196,708**

Valuations

Residential	1,351,725,000	1,351,725,000
Commercial	302,450,000	302,450,000
State	136,610,000	136,610,000
Municipal	123,023,000	123,023,000
Small holdings and farms	5,469,449,200	5,469,449,200
Place of worship	25,895,000	25,895,000
Public Service Infrastructure	10,206,300	10,206,300
Vacant land	72,288,300	72,288,300
	7,491,646,800	**7,491,646,800**

Valuations on land and buildings are performed every 3 years. The last general valuation came into effect on 1 July 2020. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

Rates are levied on a monthly basis with the monthly due date stipulated on the statements. Interest is levied on all overdue accounts at prime plus 5%. Collection fees differ based on the nature of the collection process.

The new general valuation was implemented on 01 July 2020.

31. Interest from non-exchange receivables

Interest - Property rates	6,532,584	4,793,696

Figures in Rand	2023	2022

32. Government grants and subsidies

Operating grants		
Equitable Share	120,911,000	108,738,000
Municipal Finance Management Grant	2,850,000	2,650,000
Local Government Sector Education Training Authority Grant	192,319	260,380
Expanded Public Works Programme Grant	1,073,000	1,075,000
	125,026,319	**112,723,380**
Capital grants		
Municipal Infrastructure Grant	27,669,132	26,621,000
Regional Bulk Infrastructure Grant	32,193,949	7,653,789
Water Services Infrastructure Grant	3,000,000	-
Integrated National Electrification Programme Grant	502,654	-
	63,365,735	**34,274,789**
	188,392,054	**146,998,169**

Conditional and Unconditional

Included in above are the following grants and subsidies received:

Conditional grants recognised	67,481,054	38,260,169
Unconditional grants received	120,911,000	108,738,000
	188,392,054	**146,998,169**

Equitable Share

Current year allocation	120,911,000	108,738,000
Current year receipts - recognised as revenue	(112,693,000)	(102,128,000)
Amount incorrectly withheld from ES	-	(42,000)
Withheld and set-off against unspent conditional grants	(8,218,000)	(6,568,000)
	-	**-**

The Equitable Share is an unconditional grant and in terms of the Constitution, it is used to subsidise the provision of basic services to indigent community members and indigents receive a monthly subsidies funded from the grant. The allocation as per the DORA for the current financial period was R120,911,000 (2022: R108,738,000).

Local Government Sector Education Training Authority Grant

Balance unspent at beginning of year	24,561	24,561
Current-year receipts	192,319	260,380
Conditions met - transferred to revenue	(192,319)	(260,380)
	24,561	**24,561**

Conditions still to be met - remain liabilities (see note 21).

The SETA grant funding is aimed to address skills that the sector has identified as being scarce and critical and the municipality is thus required to plan and implement training for it's employees and create training and work experience opportunities for unemployed people.

Regional Bulk Infrastructure Grant

Current-year receipts	32,193,949	7,653,789
Conditions met - transferred to revenue	(32,193,949)	(7,653,789)
	-	**-**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

32. Government grants and subsidies (continued)

Conditions still to be met - remain liabilities (see note 21).

RBIG is a schedule 6(b) grant and is in the form of allocations-in-kind to municipalities. The municipality received R32,193,949 (2022: R7,653,789) for qualifying project plans and expenditure.

The grant is used to develop new, refurbish, upgrade and replace ageing water and wastewater infrastructure of regional significance that connects water resources to infrastructure serving extensive areas across municipal boundaries or large regional bulk infrastructure serving numerous communities over a large area within a municipality; to pilot regional Water Conservation and Water Demand Management projects or facilitate and contribute to the implementation of local Water Conservation and Water Demand Management projects that will directly impact on bulk infrastructure requirements.

Water Services Infrastructure Grant

	2023	2022
Balance unspent at beginning of year	5,987,325	1,237,325
Current-year receipts	3,000,000	11,250,000
Conditions met - transferred to revenue	(3,000,000)	-
Funds surrendered/Withheld against equitable share	(7,533,334)	(6,500,000)
	(1,546,009)	**5,987,325**

Conditions still to be met - remain liabilities (see note 21).

WSIG is a schedule 5(b) grant in the form of allocations-in-kind to municipalities and is aimed to facilitate the planning and implementation of various water and sanitation projects to accelerate backlog reduction and improve the sustainability of services in prioritised district municipalities, especially in rural municipalities. Provide interim, intermediate water and sanitation supply that ensures provision of services to identified and prioritised communities, including through spring protection, drilling, testing and equipping of boreholes, provide on-site sanitation solutions, support the existing bucket eradication programme intervention in formal residential areas and support drought relief projects in affected municipalities.

Municipal Infrastructure Grant

	2023	2022
Balance unspent at beginning of year	2,978,102	2,980,102
Current-year receipts	28,508,000	26,621,000
Conditions met - transferred to revenue	(27,669,132)	(26,621,000)
Withheld against equitable share	-	(2,000)
	3,816,970	**2,978,102**

Conditions still to be met - remain liabilities (see note 21).

To provide specific capital finance for eradication of basic municipal infrastructure backlogs for poor households, microenterprises and social institutions servicing poor communities. The allocation as per the DORA for the financial year was R28,508,000 (2022: R26,621,000) and the municipality received the full allocation.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

32. Government grants and subsidies (continued)

Expanded Public Works Programme Grant

Current-year receipts	1,073,000	1,075,000
Conditions met - transferred to revenue	(1,073,000)	(1,075,000)
Funds surrendered/ withheld against equitable share	(625,333)	-
	(625,333)	**-**

Conditions still to be met - remain liabilities (see note 21).

To provide Expanded Public Works Programme (EPWP) incentive funding to expand job creation efforts in specific focus areas, where labour incentive delivery methods can be maximised. The allocation as per the DORA for the financial period was R1,073,000 (2022: R1,075,000) and the municipality received the full allocation.

Water Meter Installation Grant

Balance unspent at beginning of year	1,775,727	1,775,727

Conditions still to be met - remain liabilities (see note 21).

Integrated National Electrification Programme Grant

Current-year receipts	504,000	-
Conditions met - transferred to revenue	(502,653)	-
	1,347	**-**

Conditions still to be met - remain liabilities (see note 21).

Municipal Finance Management Grant

Balance unspent at beginning of year	(66,000)	-
Current-year receipts	2,850,000	2,650,000
Conditions met - transferred to revenue	(2,850,000)	(2,650,000)
Funds surrendered/ withheld against equitable share	(59,333)	(66,000)
	(125,333)	**(66,000)**

Conditions still to be met - remain liabilities (see note 21).

The grant is to promote and support reforms in financial management by building capacity in municipalities to implement the Municipal Finance Management Act (MFMA). The allocation as per the DORA for the financial period was R2,850,000 (2022: R 2,650,000) and the municipality received and utilised the allocation.

Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 3 of 2017), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

33. Fines, Penalties and Forfeits

Building Fines	309,800	382,050
Fines, Penalties and Forfeits	134,450	156,250
	444,250	**538,300**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

34. Employee related costs

Basic salary	93,050,645	95,668,344
Bonus	7,076,643	5,971,868
Acting allowances	2,958,917	2,566,938
Medical aid - company contributions	3,335,107	2,696,773
UIF	925,084	923,436
Skills development levy	1,724,831	1,797,865
SALGA contributions	61,474	60,323
Employee benefits plans	360,363	(2,168,200)
Travel allowances	8,100,640	7,426,532
Overtime payments	8,678,319	7,656,083
Housing benefits and allowances	1,493,613	1,577,464
Pension	17,219,320	16,083,089
Standby allowances	1,983,526	1,553,279
Telephone and other allowances	1,691,000	2,224,947
WCA	44,390	59,446
	148,703,872	**144,098,187**

35. Remuneration of councillors

Mayor	-	433,450
Council salaries	5,618,137	4,728,113
	5,618,137	**5,161,563**

Additional information

The Mayor and Speaker are full-time employees of the Municipality. Each is provided with an office and secretarial support at the cost of the Council.

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

Councillor remuneration is in line with the upper limits that is Gazetted by the Department of Cooperative Governance and the framework envisaged in section 219 of the Constitution and any excess has been included and disclosed as irregular expenditure.

No performance bonuses were paid to Councillors in the current or prior year. All bonuses refer to the structuring of remuneration based on individual requests.

36. Depreciation and amortisation

Property, plant and equipment	104,777,066	54,562,326

37. Finance costs

Non-current borrowings	1,120,952	6,796,325
Employee benefits obligation	3,517,000	2,454,000
Trade and other payables	44,611,049	22,010,784
Finance leases	-	27,661
Landfill site provision	6,466,831	264,714
	55,715,832	**31,553,484**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

38. Lease rentals on operating lease

Motor vehicles		
Contractual amounts	3,288,285	4,798,199
Equipment		
Contractual amounts	3,702	56,678
	3,291,987	**4,854,877**

39. Debt impairment

Contributions to debt impairment provision	167,762,752	160,314,771
Bad debts written-off	68,564,223	34,439,537
	236,326,975	**194,754,308**

Actual bad debts written off amounted to R68,564,223 (2022: R34,439,537) whilst the increase in the provision for impairment amounted to R167,762,752 (2022: R160,314,771).

40. Repairs and maintenance

Repairs and maintenance	3,727,987	13,179,501

41. Bulk purchases

Electricity - Eskom	76,472,953	81,002,773
Water	369,591	628,869
	76,842,544	**81,631,642**

42. Contracted services

Outsourced Services		
Fleet Services	571,401	3,256,612
Consultants and Professional Services		
IT Services and Financial Information Systems	71,087	3,345,463
Legal and Financial Consulting Services	15,601,570	17,251,009
Contractors		
Specialist Services	378,114	271,072
	16,622,172	**24,124,156**

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

43. General expenses

Advertising	298,659	225,976
Auditors remuneration	11,543,071	8,582,572
Bank charges	734,071	607,063
Bursaries	(32,600)	124,068
Commission paid	952,802	765,414
Conferences, seminars and public events	36,531	183,647
Consumables	16,650,042	11,643,462
Fines and penalties	1,520,728	966,248
Fleet	2,417,801	1,560,537
Fuel and oil	2,470,676	1,381,129
Hire of plant and equipment	16,210,140	23,646,717
Insurance	631,229	1,783,800
Licences	4,849,311	2,404,909
Other expenses	787	-
Postage and courier	(2,604)	20,430
Printing and stationery	278,118	828,921
Security	-	1,969
Subscriptions and membership fees	1,711,764	44,477
Telephone and fax	14,987	58,506
Training	282,087	226,180
Travel - local	3,528,287	3,096,538
Uniforms	86,580	1,188,049
Utilities	9,092,461	16,261,065
	73,274,928	**75,601,677**

44. Fair value adjustments

Investment property (Fair value model)	8,668,857	20,642,140

45. Gains or losses on biological assets

Gains or losses arising from a change in fair value less point of sale costs	22,027	(63,812)

46. Impairment loss

Impairments

Property, plant and equipment	21,311,679	27,133,597

During the annual asset verification process assets were identified that were damaged or not working as intended.

The main classes of assets affected by impairment losses are:

Infrastructure assets

Other property, plant and equipment

Buildings

47. Auditors' remuneration

Fees	11,543,071	8,582,572

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

48. Cash generated from operations

Deficit	(169,829,807)	(189,500,233)
Adjustments for:		
Depreciation and amortisation	104,777,066	58,744,094
Fair value adjustments	(6,940,229)	(4,314,457)
Finance costs	3,020,000	3,014,529
Impairment deficit	21,311,679	28,318,885
Debt impairment	167,762,752	154,194,953
Service costs	1,897,000	1,242,000
Movements in provisions	5,755,831	7,851,918
Contributions paid	(328,637)	(1,031,192)
Transfers	-	53,390
Other non-cash movements in PPE	2,589,183	172,926
Prior period adjustments	-	(4,137,063)
Actuarial (gains)/losses	(5,026,038)	3,350,200
Changes in working capital:		
Inventories	(991,593)	(15,518,631)
Receivables from exchange transactions	(179,814,806)	(138,675,527)
Receivables from non-exchange transactions	(12,798,312)	7,226,297
Statutory receivables	(259,400)	(339,150)
Payables from exchange transactions	157,614,475	126,008,983
VAT	(9,290,055)	(438,771)
Unspent conditional grants and receipts	(7,377,785)	2,249,657
Movement in consumer deposits	291,319	183,040
Deposits	(174,464)	(276,610)
Other financial liabilities	(191,634)	10,181
	71,996,545	**38,389,419**

49. Commitments

Authorised capital expenditure

Already contracted for but not provided for		
• Property, plant and equipment	192,869,662	42,269,533
Not yet contracted for and authorised by accounting officers		
• Property, plant and equipment	-	21,894,122
Total capital commitments		
Already contracted for but not provided for	192,869,662	42,269,533
Not yet contracted for and authorised by accounting officers	-	21,894,122
	192,869,662	**64,163,655**

This committed expenditure related to property, plant and equipment will be financed by:

Municipal Infrastructure Grant
Regional Bulk Infrastructure Grant
Water Services Infrastructure Grant

Figures in Rand	2023	2022

50. Contingencies

Contingent Liabilities

Litigations		
Eskom:	500,000,000	-
Nketoana Local Municipality obtained an interdict against Eskom not to cut the power. The account is being disputed. Excess of R500,000,000.		
Lekota (Pty) Ltd:	810,000	-
The Plaintiff in this matter, issued summons against the municipality after sustaining injuries from a motor vehicle accident.		
N and C Maintenance and Spares (Pty) Ltd:	484,259	484,259
Litigation is in process against the municipality relating to a dispute with N and C Maintenance and Spares (Pty) Ltd for claim relating to repair and/ or supply of water plant equipment. The claim amount is R 484 258,54		
Bila Mashamba Attorneys:	800,000	-
Litigation is in process against the municipality relating to legal fees.		
Sefantsi:	300,000	-
Litigation is in process against the municipality relating to a dispute in terms of the decision to appoint the municipal manager.		
Telkom SA SOC LTD:	143,801	143,801
Litigation is in process against the municipality relating to a dispute with Telkom SA SOC LTD (Pres. Swart & Walker streets). The claim amounts to R 143 800,76.		
Blueberry Trading CC & 1 other:	400,000	400,000
Claim for damages resulting from a veld fire was instituted against the municipality.		
FCC Van Tonder:	287,742	287,742
Action was taken against the municipality for damages resulting from a feldfire in which the municipality was allegedly negligent as land owner. The claim amount is R 287 745.		
Selacor Investment:	1,221,864	-
Claim for services rendered and not paid. Summons was issued against the municipality.		
Rantoa:	2,400,000	-
Claim for services rendered and not paid. Summons was issued against the municipality. (Plant Hire & Pipeline)		
Getto-Fabulous:	4,083,734	-
Claim for services rendered and not paid. Summons was issued against the municipality.		

Notes to the Annual Financial Statements

Figures in Rand	2023	2022
50. Contingencies (continued)		
AGSA:	5,854,177	-
Claim for services rendered and not paid. Summons was issued against the municipality.		
Siswa Trading:	6,986,782	-
First claim for services rendered and not paid. Summons was issued against the municipality.		
Siswa Trading:	3,485,835	-
Second claim for services rendered and not paid. Summons was issued against the municipality.		
Phatsoane Henney Attorneys Inc:	600,976	-
Claim for services rendered and not paid. Summons was issued against the municipality.		
Makhubo:	400,000	-
CFO labour dispute with regard to recession of appointment of CFO		
Bila Mashamba Attorneys	800,000	-
Litigation pending, Plantiff need to tax their legal account before Nketoana is liable to pay.		
Expansion of the Reitz water treatment works holding dam	400,000	-
Awaiting the outcome of our legal appeal in terms of S24(g).		
	529,459,170	**1,315,802**

Figures in Rand	2023	2022

51. Related parties

Relationships	
Accounting Officers	Monyane Sefantsi (Contract ended) Mokete Nhlapo (Appointed December 2022)
Councillors and Controlled Entities	Smit A (None); Blignaut M (Monaufaic Beleggings, M Blignaut Boerdery, NG Welsyn Reitz Tehuis, NG Welsyn Reitz-tehuis, NG Welsyn Reitz wooneenhede, Agristan SA); Makoba BM (Speaker) (Ibutho Multi-purpose co-operation limited, Buyiphila Trading); Mofokeng DI (Multi approach investment); Mofokeng LJ (None); Dlamini PP (J-Sexion Consulting, Donato Creative works); Mosia ME (Maletsatsi Konstruksie, Sohlasonke Construction, Phuthanang Catering, Sanaco Phutang Secondary Co-operative limited, South African Social Service tertiary co-operative limited, K2019435465 (SOUTH AFRICA)); Muller HMC (None); Mofokeng Kgantshe (Puretec Construction); Mofokeng K (None); Nhlapo LG (None); Bosman ML (None); Miya LF (None); Molakeng KL (None); Mabaso MA (None); Mofokeng PP (None); Mokoena TE (None); Mokoena MT (Mayor) (None)
Members of key management	Jabulani Leonard Makubu (Kgatelopele Advisory Services, Eclipse Investment Holdings, Dihlabeng ANC LET, Dihlabeng LET); Mokete Solomon Nhlapo (Kido Consultancy); Patricia Motlanalo Morokolo (Katlego Hair salon, MKM Project Managers, K2015207795 (South Africa), MKTT Salon and Transport, LKT Consulting and projects); Makheo JM (None); Moeketsi Letsela (Small green garden centre, Lapoloha restaurant, Thabo Mofutsanyane Goodman football academy, Thanks farm Enterprise, Moelet Group)

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

51. Related parties (continued)

Key management information

Mayor	Mokoena MT
Councillors	Dlamini PP Makhoba BM (Speaker) Mofokeng K Mosia MJ Mokoena TE Mofokeng K Muller HMC Mofokeng PP (Chief Whip) Mabaso MA Mofokeng DI Smit A Blignaut M Miya LF Bosman ML Nhlapo LG Molakeng KL Mofokeng LJ

51. Related parties (continued)

Remuneration of management

Management class: Councillors

2023

Name	Basic salary	Travel, Cell phone, Oversight Allowance	Contributions to UIF, medical aid & pension fund	Total
Mayor	860,859	259,547	150,891	1,271,297
Councillors	4,239,273	887,108	708,182	5,834,563
Chief Whip	360,193	112,507	67,049	539,749
Speaker	568,688	232,507	259,583	1,060,778
	6,029,013	**1,491,669**	**1,185,705**	**8,706,387**

2022

Name	Basic salary	Travel, Cell phone, Oversight Allowance	Contributions to UIF, medical aid & pension fund	Total
Mayor	585,822	216,289	11,449	813,560
Councillors	5,373,191	-	516,589	5,889,780
Chief Whip	210,113	99,007	-	309,120
Speaker	400,597	153,756	6,536	560,889
	6,569,723	**469,052**	**534,574**	**7,573,349**

Additional information

The salaries, allowances and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

51. Related parties (continued)

Management class: Executive management

2023

Name	Basic salary	Bonuses and performance related payments	Pension and Medical Aid	Other Allowances	Acting allowance	Total
Municipal Manager - Mr. M Nhlapo	621,298	-	-	41,255	92,012	754,565
Municipal Manager - Mr. Sefantsi	264,159	27,859	30,747	83,993	-	406,758
Chief Financial Officer	652,986	-	-	83,382	-	736,368
Director Technical Services	596,344	90,000	247,654	4,499	-	938,497
Director Community Services	381,250	-	-	240,146	-	621,396
Director LED	519,234	-	149,894	41,443	-	710,571
Director Corporate Services	470,295	-	-	211,295	-	681,590
	3,505,566	**117,859**	**428,295**	**706,013**	**92,012**	**4,849,745**

2022

Name	Basic salary	Cellphone and housing	Car/travel allowance	Total
Municipal Manager	1,108,126	178,000	192,000	1,478,126
Director Corporate Services	942,319	36,000	42,000	1,020,319
Director Technical Services	593,751	18,000	156,000	767,751
Director Community Services	661,407	36,000	168,000	865,407
	3,305,603	**268,000**	**558,000**	**4,131,603**

No performance bonuses were paid to Executive Directors in the current or prior year. All bonuses refer to salary structuring based on individual requests.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

52. Prior-year adjustments

Presented below are those items contained in the statement of financial position, statement of financial performance and cash flow statement that have been affected by prior-year adjustments:

Statement of financial position

2022

	Note	As previously reported	Correction of error	Restated
Inventories		1,174,574	16,263,872	17,438,446
Receivables from non-exchange transactions		8,533,928	(373,805)	8,160,123
Receivables from exchange transactions		36,409,501	2,566,946	38,976,447
VAT receivable		19,776,654	1,099,183	20,875,837
Investment property		111,258,440	4,378,269	115,636,709
Property, plant and equipment		905,700,047	(1,030,663)	904,669,384
Deposits		4,009,240	89,283	4,098,523
Payables from exchange transactions		(637,228,541)	(28,592,312)	(665,820,853)
Employee benefit obligations		(32,816,000)	-	(32,816,000)
Unspent conditional grants		(13,132,058)	2,432,343	(10,699,715)
Provisions		(64,016,312)	(5,287,036)	(69,303,348)
Accumulated surplus		(343,117,222)	8,453,920	(334,663,302)
		(3,447,749)	**-**	**(3,447,749)**

Statement of financial performance

2022

	Note	As previously reported	Correction of error	Restated
Service charges		(183,405,610)	(919,546)	(184,325,156)
Other income		(1,074,582)	(1,647,400)	(2,721,982)
Property rates		(16,190,633)	(6,075)	(16,196,708)
Government grants and subsidies		(146,998,169)	(2,432,343)	(149,430,512)
Employee related costs		127,051,428	17,046,759	144,098,187
Remuneration of councillors		5,652,458	(490,895)	5,161,563
Depreciation and amortisation		53,704,887	857,439	54,562,326
Finance costs		33,747,623	(2,194,139)	31,553,484
Lease rentals on operating lease		(2,581,259)	7,436,136	4,854,877
Repairs and maintenance		21,642,572	(8,463,071)	13,179,501
Bulk purchases		75,721,476	5,910,166	81,631,642
Contracted services		22,506,420	1,617,736	24,124,156
General expenses		70,667,521	4,934,156	75,601,677
Fair value adjustments		-	(20,642,140)	(20,642,140)
Surplus for the year		**60,444,132**	**1,006,783**	**61,450,915**

Errors

The following prior period errors adjustments occurred:

52. Prior-year adjustments (continued)

1. Reclassification of expenditure items:

During the period under review, the expenditure classification was tested, and various errors were identified. These errors were retrospectively adjusted. The effect of the correction of the error is summarised below:

Increase in Employee related costs	R1,145,309
Decrease in Finance costs	(R4,574,981)
Increase in Lease rentals	R7,436,136
Decrease in repairs and maintenance	(R8,463,071)
Decrease in Contracted services	(R1,617,736)
Increase in General Expenditure	R2,833,504

2. Revenue and receivables:

During the period under review certain billings adjusted to correct the prior year matters. The comparative figures for 2020/21 and 2021/22 financial year have been restated. The effect of the correction of the error is summarised below:

Increase in Receivables from non-exchange transactions	R6 075
Decrease in Receivables from exchange transactions	R2,187,077
Decrease in Accumulated surplus	(R2,193,153)

3. Completeness of expenditure (Bulk purchases):

During the period under review, bulk purchases were identified that was not previously recorded. The comparative figures for the 2021/22 financial year have been restated. The effect of the correction of the error is summarised below:

Increase in Municipal services	R12,525
Decrease in Bulk purchases	(R12,525)
Increase in Trade and other payables	(R6,811,094)
Increase in VAT Receivable	R888,404
Increase in Bulk purchases	R5,922,691
Increase in Finance costs	R2,415,481
Increase in Trade and other payables	(R2,415,481)
Increase in Finance costs	R177,192
Increase in Trade and other payables	(R177,192)

4. Audit fees:

During the period under review, a classification error was identified that was not previously corrected. The comparative figures for the 2021/22 financial year have been restated. The effect of the correction of the error is summarised below:

Increase in Audit fees	R209,294
Increase in VAT Receivable	R2,903
Decrease in Finance costs	(R212,197)

5. Unspent conditional grants:

During the period under review, WSIG grant expenses were identified that was not previously recognised. The comparative figures for the 2021/22 financial year have been restated. The effect of the correction of the error is summarised below:

Increase in Government grants and subsidies	R2,432,343
Decrease in Unspent conditional grants	(R2,432,343)

6. Clearing of salary control account:

52. Prior-year adjustments (continued)

During the period under review, the salary control account was cleared. These transactions relate to the prior year financial year. The comparative figures for the 2021/22 financial year have been restated. The effect of the correction of the error is summarised below:

Increase in Employee related costs	R3,245,423
Decrease in Trade and other payables	(R3,245,423)

7. Investment properties and inventory consumed:

During the period under review, it was found that the valuations for investment properties are incorrect. It was also found that inventory items were incorrectly included under investment properties. The comparative figures for the 2021/22 financial year have been restated. The effect of the correction of the error is summarised below:

Increase in Inventory consumed	R13,365,567
Decrease in Investment properties	(R13,365,567)
Increase in Investment properties	R20,642,140
Increase in Fair value adjustments	(R20,642,140)
Increase in Inventory consumed	R2,927,304
Decrease in Investment properties	(R2,927,304)

8. Provisions and Accruals:

During the period under review, the populations for current liabilities were reviewed and certain errors were identified (with specific reference to invoices not accounted for). These transactions relate to the prior year financial year. The comparative figures for the 2021/22 financial year have been restated. The effect of the correction of the error is summarised below:

Increase in Deposits	R89,283
Increase in VAT receivables	R207,876
Increase in Provisions	(R5,287,036)
Increase in Trade and other payables	(R1,924,149))
Decrease in Retained earnings	R6,914,026

9. Employee related costs:

During the period under review, there were misallocations identified within employee related costs and the salary control account. These transactions relate to the prior year financial year. The comparative figures for the 2021/22 financial year have been restated. The effect of the correction of the error is summarised below:

Increase in Trade and other payables	(R14,930,121)
Increase in Employee related costs	R14,930,121

10. Employee benefit obligations:

During the period under review, the population for employee benefit obligations was reviewed and certain errors were identified. These errors in the estimate relate to the prior year financial year. The comparative figures for the 2021/22 financial year have been restated. The effect of the correction of the error is summarised below:

Increase in Employee benefit obligations	(R5,599,693)
Increase in Employee related costs	R5,599,693

11. Property, plant and equipment:

During the period under review, asset verifications were performed, and the asset registers were adjusted. An error with the depreciation charge was identified. The error was retrospectively adjusted. The effect of the correction of the error is

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

52. Prior-year adjustments (continued)
summarised below:

Decrease in Property, plant and equipment	(R1,030,663)
Decrease in Retained earnings	R173,223
Increase in Depreciation	R857,440

12. Inventory:

During the period under review opening balances on consumable stores were written-down by passing journals to correct the prior year matters. The error was retrospectively adjusted. The effect of the correction of the error is summarised below:

Decrease in Consumables (Inventory)	(R179,897)
Decrease in Retained earnings	R179,897
Decrease in Consumables (Inventory)	(R981,271)
Increase in Materials and supplies (Inventory)	R981,271

53. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus (deficit) of R 180,159,542 and that the municipality's total assets exceed its liabilities by R 180,159,542.

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the municipality is funded by national government through division of revenue and that the accounting officer continues to implement other revenue enhancement and debt recovery strategies.

The following significant indicators indicates that a material uncertainty exists that may cast significant doubt on the municipality’s ability to continue as a going concern ability, evident as per the statement of financial performance and statement of financial position. These uncertainties cast significant doubt regarding the going concern of the municipality as of 30 June 2023 and thus management have assessed and disclosed these on herewith:

The municipality experienced significant cashflow constraints throughout the financial period ended 30 June 2023 and the bank balances at year end is indicative of the depleted cash reserves.

The municipality incurred a significant operating deficit of R169,870,807 (2022: R189,500,233).

The municipality's current liabilities exceed its current assets by a significant value of R741,015,329 (2022: R633,382,281) and creditors were not paid within 30 days as legislated.

The municipality has legal claims against them amounting to R529,459,170 (2022: R1,315,802). Refer to note 50 for details.

The municipality’s cash at hand and bank balances does not cover its creditors when they fall due. The municipality owes Eskom a significant amount of R673,803,109 as of 30 June 2023 and has no debt payment agreement/arrangement.

The municipality has significant contingent liabilities which could severely impact the municipality's cash outflows should the alleged actions become successful.

Management has prepared a projected 12-month cashflow forecast and budget for the 2024 financial period has been prepared and the forecasts indicates that the municipality will be able to generate adequate cashflows to cover the short term liabilities and obligations as they arise but could possibly be in an overdraft position at the end of the 2024 financial period.

After the management has identified indicators and performed assessment and evaluation, the annual financial statements are prepared on a going concern basis as the municipality will likely continue operations.

Further to the going concern assessment that has been performed, the municipality has confidence that the short term financial situation will turn around through the funding plan the has been adopted by Council.

1. *Reduction in non-core expenditure:*

Identify and list non-core expenditure:
- Finance costs
- Legal fees
- Consulting fees

Reduce non-core expenditure by at least 50 percent as follows:
- FY 2023/24 – 30 per cent
- FY 2024/25 – 20 per cent

Consulting and Professional fees:

53. Going concern (continued)

Decreasing the scope of consultants – The municipality has started to reduce the scope of consultants (AFS, FAR, VAT, legal) and also focus on a transfer of skills from consultants to officials during the remaining contractual terms. This will capacitate officials and reduce non-core expenditure.

Not renewing contracts – Where necessary skills are already with officials and consultant contracts close to expiry, the municipality will not renew contracts and rely on its own resources.

Filling vacancies in critical areas – Where consultants are performing tasks left undone by the municipality due to vacancies the municipality will first fill vacancies; then start with capacitation/skills transfer as the consultant scope is reduced; and finally allow contracts to expire without renewal.

Conferences and Seminars:

COVID-19 also caused a reduction in these non-core expenses and the municipality aims to keep these fees as low as possible and within the cost-containment policy.

2. *Addressing Trade Payables:*

Eskom credit - The approved debt relief application will allow the municipality to reduce finance charges significantly as the main contributor was the overdue ESKOM account and the related costs.

Other creditors – Making arrangements with creditors to make interval payments, so as to manage the cash flow.

3. *Revenue Enhancement:*

The approved Council Revenue Enhancement Strategy/Plan is to be revised and implemented. The said plan is aimed at recovery of expenditure; the recovery of non-core expenditure from the party creating such expenditure and thus preventing cross-subsidizing of these expenditures by other residents (especially the poor); protection of assets to reduce maintenance and depreciation costs; an increase in the limited revenue base of the municipality; ensuring a healthy and safe environment for all residents also with the intention to create better relationships and a culture of paying for services. The said plan includes, but is not limited to, aspects such as:

- Performing site audits by service departments to ensure that the monthly billing is in accordance with the services rendered (including businesses in residential areas, renting of rooms, guesthouses, additional units erected, etc.) and the legality of these alterations;

- Health and safety audits to ensure that traffic/health laws are obeyed; trucks are limited to approved roads and entrances; removal of heavy vehicles overnight in town; animals in residential areas are removed; sport and other facilities are controlled and paid for, etc.;

- Installing of pre-paid water meters with the possibility of reduced rates for those occupants, also aimed at sites where no water meters are currently installed.

- Finalizing of the legal processes with the assistance of the newly appointed Legal Manager to get the legal processes on outstanding debt re-activated;

- Ensuring monthly meter readings for the correctness of billings and statistical information for management and performance processes;

- Ensuring that lease agreements are drawn up and /or renewed on all properties of the municipality;

- Follow up site audits on random sites to ensure the site usages of services remain within the approved and billed services;

- Frequent audits on lists supplied by the Finance Department where variations occur on metered usages;

- Increased consultation with the community via Ward Councilors on legal requirements of service delivery; etc.

Notes to the Annual Financial Statements

54. Events after the reporting date

On 27 September 2023, the High Court instructed the Sheriff of the Court to execute a public auction on the movable assets of the municipality to recover R5,278,694.45, and settle the claim of Rudnat Projects CC against the municipality with the funds generated.

On 31 July 2023, the municipality applied for municipal debt relief at the National Treasury. On 30 August 2023, the application was approved by National Treasury. The municipal debt relief program will entail National Treasury's assistance in settling the Eskom debt over a period of 36 months.

No other subsequent events were identified.

Figures in Rand	2023	2022

55. Unauthorised expenditure

Opening balance as previously reported	810,658,560	581,167,415
Opening balance as restated	**810,658,560**	**581,167,415**
Add: Expenditure identified - current	170,126,896	229,491,145
Closing balance	**980,785,456**	**810,658,560**

The unauthorised expenditure was incurred because to the overspending of the budget and the main divisions in the budget. The overspending was driven by the fact that non-cash items were not properly budgeted for and it resulted in certain of the items within the budget votes not being allocated sufficient funding.

The Executive and Council vote had no unauthorised expenditure for the 2023 and 2022 financial years respectively.

Unauthorised expenditure: Budget overspending – per municipal vote:

Water	39,137,026	-
Roads transport	22,512,677	-
Waste management	19,685,307	120,157,941
Electricity	5,249,521	-
Community and social services	-	450,149
Planning and development	-	49,629
Finance and administration	78,386,809	89,667,685
Waste water	4,824,048	18,690,395
Housing	331,508	222,312
Other	-	253,034
	170,126,896	**229,491,145**

Recoverability of unauthorised expenditure

No investigations in terms of Section 32 of MFMA were finalised during the current financial year.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

56. Fruitless and wasteful expenditure

Opening balance as previously reported	149,264,976	126,954,675
Opening balance as restated	**149,264,976**	**126,954,675**
Add: Expenditure identified - current	47,655,198	22,310,301
Closing balance	**196,920,174**	**149,264,976**

The current year fruitless and wasteful expenditure relates to interest and penalties on overdue submissions and accounts.

No investigations in terms of Section 32 of MFMA were finalised during the current financial year.

57. Irregular expenditure

Opening balance as previously reported	426,883,446	386,068,200
Opening balance as restated	**426,883,446**	**386,068,200**
Add: Irregular Expenditure - current	53,046,824	40,815,246
Closing balance	**479,930,270**	**426,883,446**

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

Non-compliance with SCM regulations	53,046,824	40,815,246

Recoverability steps taken/criminal proceedings

No investigations in terms of Section 32 of MFMA were finalised during the current financial year.

Irregular expenditure is disclosed inclusive of VAT.

58. Deviation from supply chain management regulations

	2023	**2022**
Deviations from SCM processes	1,270,224	4,028,593

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.

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

The following are the deviation amounts and reasons:

Emergency deviation R1 270 224 (2022: R4 028 593) .

Figures in Rand	2023	2022

59. Additional disclosure in terms of Municipal Finance Management Act

Contributions to organised local government

Opening balance	4,285,825	2,746,868
Current year subscription / fee	1,691,020	1,538,957
Amount paid - current year	(1,600,000)	-
Adjustment	7,705	-
	4,384,550	**4,285,825**

Contributions to organised local government consist of annual subscriptions paid to SALGA.

Material distribution losses

Electricity	24,566,600	27,514,123
Water	8,480,129	9,945,842
	33,046,729	**37,459,965**

Distribution losses - Water
The water losses are mainly due to metering inefficiencies, burst pipes and leaks in the reticulation network. In the current year the water losses were 21.13% (2022: 27.75%).

Kl - units	727 284	1 039 273
Percentage	21.13%	27.75%

Distribution losses - Electricity
In the current year the energy losses were 32.12% (2022: 36.64%) and the losses were as a result of theft, vandalism, faulty meters and variances in monthly consumption estimates. Management has determined that these losses are not recoverable.

kWh - units	R15,944,423	R21,698,387
Percentage	32.12%	36.64%

The electricity distribution loss comprises of technical and non-technical losses. The annual electricity distribution losses are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold.

Non-technical losses:
Non-technical losses are amongst others the result of administrative and technical errors, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption, faulty meters, etc.

Technical losses:
Technical losses are the result of electricity losses while being distributed from the source of generation through the transmission and distribution network to the final consumer. Technical losses are inherent to the supply of electricity via lines and is further affected by the condition and age of the network, the weather conditions and load on the system. The wires (copper or aluminium) being used to distribute electricity has certain resistance which resist the throughput of current, as a result there is a certain portion of electricity that is lost due to distribution.

Audit fees

Opening balance	6,653,785	3,314,005
Current year fees and interest	15,497,547	10,318,642
Amount paid - current year	(9,078,480)	(5,445,565)
Amount paid - previous years	-	(1,533,397)
Adjustments	(3,521,223)	-
	9,551,629	**6,653,685**

Included in the above reconciliation is an amount of R1,669,842 (2022: R1,133,364) that was paid on behalf of the municipality, by the Provincial Treasury. This payment relates to the 1% allocation.

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

PAYE and UIF

Opening balance	11,125,135	4,495,960
Current year deductions	18,375,227	19,497,291
Amount paid - current year	(23,993,251)	(12,868,116)
	5,507,111	**11,125,135**

Pension and Medical Aid Deductions

Opening balance	8,862,579	2,583,948
Current year deductions	31,631,963	29,636,805
Amount paid - current year	(32,306,386)	(23,358,174)
	8,188,156	**8,862,579**

VAT

VAT receivable	30,165,892	20,875,837

The amount presented in this note includes VAT accounted for on an accrual basis thus not recoverable from SARS. The VAT receivable/(payable) on cash basis is (R 795 051) (2022: R 795 051).VAT output payables and VAT input receivables are shown in note .

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

Councillors' arrear consumer accounts

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

30 June 2023	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Councillor Makgwakgweng T	-	7,825	7,825

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

30 June 2022	Highest outstanding amount	Aging (in days)
Councillor Makgwakgweng T	7,825	90

Investments as at the end of the financial year

The municipality had the following investments as at the end of the financial year

Summary of all investments		
ABSA - Account Number 9074155973	605,892	605,892
Call account		
Other financial assets	1,866,953	1,866,953
Other financial assets includes shares held at VKB Agricultural (Pty) Ltd and other bonds as disclosed in note 4.		
	2,472,845	**2,472,845**

Notes to the Annual Financial Statements

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

Non-compliance with the Municipal Finance Management Act

Instances of non-compliance with the MFMA and related regulations occurred and were identified during the year and include among others:

Non-compliance with SCM Regulations that resulted in Irregular expenditure reported these annual financial statements. Monies owed by the municipality was not always paid within 30 days as required by section 65(2)(e) of the MFMA.

Unauthorised, Irregular, Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.

The municipality has not prepared a funded budget as required in terms of the MFMA and regulations.

Figures in Rand	2023	2022

60. Financial instruments disclosure

Categories of financial instruments

2023

Financial assets

	At amortised cost	Total
Other financial assets	2,048,406	2,048,406
Receivables from exchange transactions	63,219,370	63,219,370
Receivables from non-exchange transactions	8,767,566	8,767,566
Other receivables	7,980,336	7,980,336
Other statutory receivables	781,386	781,386
Deposits	4,272,987	4,272,987
Cash and cash equivalents	1,574,547	1,574,547
	88,644,598	**88,644,598**

Financial liabilities

	At amortised cost	Total
Borrowings	4,117,597	4,117,597
Trade and other payables from exchange transactions	802,271,974	802,271,974
Consumer deposits	2,441,045	2,441,045
	808,830,616	**808,830,616**

2022

Financial assets

	At amortised cost	Total
Other financial assets	1,856,772	1,856,772
Other receivables	7,980,336	7,980,336
Other statutory receivables	521,986	521,986
Receivables from non-exchange transactions	8,160,123	8,160,123
Receivables from exchange transactions	38,976,447	38,976,447
Deposits	4,098,523	4,098,523
Cash and cash equivalents	2,477	2,477
	61,596,664	**61,596,664**

Financial liabilities

	At amortised cost	Total
Borrowings	4,878,472	4,878,472
Finance lease obligations	525,279	525,279
Trade and other payables from exchange transactions	639,111,519	639,111,519
Consumer deposits	2,149,726	2,149,726
	646,664,996	**646,664,996**

Financial instruments in Statement of financial performance

2023

Figures in Rand	2023	2022

60. Financial instruments disclosure (continued)

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	135,401,273	135,401,273
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(44,950,615)	(44,950,615)
	90,450,658	**90,450,658**

2022

	At amortised cost	Total
Interest income (calculated using effective interest method) for financial instruments at amortised cost	92,350,468	92,350,468
Interest expense (calculated using effective interest method) for financial instruments at amortised cost	(28,053,384)	(28,053,384)
	64,297,084	**64,297,084**

61. Risk management

Financial risk management

This note presents information about the municipality's exposure to each of the financial risks below and the municipality's objectives, policies and procedures for measuring and managing financial risks. Further quantitative disclosures are included in the annual financial statements.

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

The Council has overall responsibility for the establishment and oversight of the municipality's risk management framework. The municipality's audit committee oversees the monitoring of compliance with the municipality's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the municipality. The audit committee is assisted in its oversight role by the municipality's internal audit function.

The municipality monitors and manages the financial risks relating to the operations of the municipal entity through internal risk reviews which analyse exposures by degree and magnitude of risks. These risks include the following:
- liquidity risk;
- credit risk; and
- market risk (including interest rate risk).

The municipality seeks to minimise the effects of these risks in accordance with the municipality's policies approved by the Council. The policies provide written principles on interest rate risk and credit risk. Compliance with policies and exposure limits is reviewed by the internal auditors were applicable. The municipality does not enter into or trade in financial instruments for speculative purposes.

Figures in Rand	2023	2022

61. Risk management (continued)

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.

Liquidity risk is the risk that the municipality will encounter difficulty in meeting the obligations associated with its financial liabilities that are settled by delivering cash or another financial asset. The municipality's exposure to liquidity risk is as a result of the funds not being available to cover future commitments. The municipality manages liquidity risk through ongoing review of commitments.

The municipality has started to improve the cash funds available, however there is still a liquidity risk. The municipality manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The municipality has however defaulted on payables and lease commitment payments. Certain suppliers with debt is exceeding 30 days.

All of the municipality's financial assets have been reviewed for indicators of impairment. Certain receivables were found to be impaired and a provision has been recorded accordingly. The impaired receivables are mostly due from customers defaulting on service costs levied by the municipality.

Credit risk

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

Trade receivables comprise a widespread customer base. Management reviews credit risk annually when the impairment and discounting of receivables are performed. Risk control mainly assesses the payment patterns of the consumers.

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

Financial instrument	2023	2022
Receivables from non-exchange transactions	8,767,566	8,160,123
Receivables from exchange transactions (Consumer debtors)	63,219,370	38,976,447
Cash and cash equivalents	1,574,547	2,477
Other financial assets	750,590	780,125
Other receivables	7,980,336	7,980,336

Market risk

Market rate risk

The municipality has no exposure to financial risks arising from changes in market prices.

61. Risk management (continued)

Interest rate risk

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

At year-end, financial instruments exposed to interest rate risk due to being linked to prime interest rate were as follows:
- Call and notice deposits/investments
- Current bank accounts
- Interest charged on consumer receivables from exchange transactions overdue

The municipality's interest rate risk arises from the above financial instruments being linked to the prime interest rate. The prime interest rate is used as a factor in calculating the interest received or interest charged on these financial instruments. Fluctuations in the prime interest rate during the year give rise to a possible interest rate risk affecting the municipality.

Interest charged on customers' account and or received from investment are calculated using the prime rate at the beginning of the financial year. Since this interest rate is only based on prime rate at one point during the financial year, fluctuations in prime during the year will not have a material effect on these financial instruments.

Fair values
The municipality's financial instruments consist mainly of cash and cash equivalents, investments, trade receivables, trade payables and long term debt.

No financial asset was carried at an amount in excess of its fair value. The following methods and assumptions are used to determine the fair value of each class of financial instrument:

Cash and cash equivalents:
The carrying amount of cash and cash equivalents approximates fair value due to the relatively short-term maturity of these financial assets and financial liabilities

Investments:
Investments are carried at their original cost in the statement of financial position, except for those where the interest received are capitalised that are carried at amortised cost. Some of the financial assets held by the municipality are carried at fair value were fair value is can be ascertained.

Receivables from exchange transactions:
The carrying amount of trade receivables, net of provision for impairment (provision for bad debt) approximates fair value due to the relatively short-term maturity of these financial assets.

Trade payables:
The carrying amount of trade payables approximates fair value due to the relatively short-term maturity of this financial liability.

Interest bearing loans:
Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in surplus or deficit over the period of the borrowings on an effective interest basis. The fair value of interest bearing borrowings with variable interest rates approximates their carrying amounts.

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

62. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	4,117,597	4,878,472

Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

Notes to the Annual Financial Statements

Figures in Rand	2023	2022

63. Segment information

General information

Identification of segments

The municipality is organised into seven directorates(votes) for management purposes. The votes are further allocated into four functional areas that relate to Governance and administration,Community and public safety, Economic and environmental services,Trading services.

Community and public safety, Economic and environmental services,Trading services functional areas have been identified as reportable segments. Management monitors the operating results of these units to make decisions about resource allocations and assessment of performance. Revenues and expenditures relating to these units are allocated at a transactional level. Costs relating to the governance and administration of the municipality are not allocated to these business units. Segments activities were aggregated for reporting purposes into the two reportable segments.

The Governance and administration is a support function and its results are has also been identified to be a separately reportable segment to reconcile the results of the trading reportable segments to the total revenue and expenses of the municipality for the year under review.

The two reportable segments comprise of:

• Community services, which include sport and recreation, housing, public safety, refuse removal, street cleaning and cemeteries; and

• Technical services which include energy sources, water management, and wastewater management.

Management does not monitor financial performance geographically and does not have reliable separate financial information for geographical areas in the municipal area.

A measure of assets and liabilities for each reportable segment has not been presented as these amounts are not regularly provided to management.

Aggregated segments

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.

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**
Community and public safety	Include sport and recreation, housing, public safety, housing, health, street cleaning and cemeteries; etc
Economic and environmental services	Planning and development, Road Transport and environmental protection
Trading services	Technical services which include energy sources, water management, and wastewater management

63. Segment information (continued)

Segment surplus or deficit, assets and liabilities

Segment surplus or deficit

2023

	Revenue from non-exchange transactions	Revenue from exchange transactions	Interest revenue	Other revenue	Total Segment revenue	Salaries and wages	Depreciation and amortisation	General expenses (including finance charges)	Total Segment expenditure	Total segment (deficit) surplus
Revenue										
Community services	309,200	647,831	-	-	957,031	37,252,542	250,880	7,954,010	45,457,432	(44,500,401)
Electricity	637,104	73,942,220	3,207,209	-	77,786,533	8,165,269	43,190,900	95,647,361	147,003,530	(69,216,997)
Executive council	-	-	-	-	-	12,982,594	-	19,350,667	32,333,261	(32,333,261)
Finance and administration	139,485,293	2,074,312	74,400,504	13,716,922	229,677,031	28,879,507	1,734,473	171,802,751	202,416,731	27,260,300
Housing	8,218,000	32,588	-	-	8,250,588	4,089,208	-	1,300	4,090,508	4,160,080
Local economic development	-	-	-	-	-	1,756,350	-	77,655	1,834,005	(1,834,005)
Roads transport	27,669,132	50,716	-	-	27,719,848	11,737,626	26,597,129	18,801,755	57,136,510	(29,416,662)
Waste management	1,073,000	28,099,519	15,707,961	-	44,880,480	10,120,536	636,450	48,996,322	59,753,308	(14,872,828)
Waste water	-	41,904,870	14,278,627	-	56,183,497	12,292,005	-	48,165,042	60,457,047	(4,273,550)
Water	35,193,949	67,316,061	28,418,352	-	130,928,362	21,143,078	32,367,234	89,915,714	143,426,026	(12,497,664)
Total	**212,585,678**	**214,068,117**	**136,012,653**	**13,716,922**	**576,383,370**	**148,418,715**	**104,777,066**	**500,712,577**	**753,908,358**	**(177,524,988)**
Entity's revenue					**576,383,370**					
Other reconciling items										
Unallocated salaries										(285,155)
Write-off of other receivables										7,980,336
Entity's Surplus (deficit) for the period										**(169,829,807)**

63. Segment information (continued)

2022

	Revenue from non-exchange transactions	Revenue from exchange transactions	Interest revenue	Other revenue	Total Segment revenue	Salaries and wages	Depreciation and amortisation	General expenses (including finance charges)	Total Segment expenditure	Total segment (deficit) surplus
Revenue										
Community services	766,254	380,850	-	-	1,147,104	23,041,988	-	7,743,652	30,785,640	(29,638,536)
Electricity	74,091,290	156,250	1,691,620	-	75,939,160	7,838,947	4,526,087	101,821,372	114,186,406	(38,247,246)
Executive council	-	-	-	-	-	13,515,656	-	17,805,674	31,321,330	(31,321,330)
Finance and administration	1,820,207	132,657,909	48,068,986	(55,812)	182,491,290	29,000,765	7,181,949	156,322,389	192,505,103	(10,013,813)
Housing	11,677	-	-	-	11,677	3,792,989	-	21,322	3,814,311	(3,802,634)
Local economic development	-	-	-	-	-	1,418,359	-	29,270	1,447,629	(1,447,629)
Roads transport	46,362	33,121,000	-	-	33,167,362	10,960,832	19,393,996	9,744,531	40,099,359	(6,931,997)
Waste management	24,061,980	1,075,000	11,774,275	-	36,911,255	9,771,156	(3,746,928)	51,930,965	57,955,193	(21,043,938)
Waste water	25,738,029	-	10,356,993	-	36,095,022	11,232,748	-	39,067,728	50,300,476	(14,205,454)
Water	59,892,292	8,654,109	20,828,826	-	89,375,227	19,575,151	26,349,783	96,094,020	142,018,954	(52,643,727)
Total	**186,428,091**	**176,045,118**	**92,720,700**	**(55,812)**	**455,138,097**	**130,148,591**	**53,704,887**	**480,580,923**	**664,434,401**	**(209,296,304)**
Entity's revenue					**455,138,097**					
Other reconciling items										
Unallocated salaries										(253,034)
CaseWare journals not on system										20,049,108
Entity's Surplus (deficit) for the period										**(189,500,230)**

63. Segment information (continued)

Segment assets and liabilities

2023

	Total segment assets	Total segment liabilities
Community services	45,203,124	(3,588,815)
Electricity	285,548,308	(506,288,186)
Executive council	(95,532,449)	28,276,279
Finance and administration	835,721,809	(445,805,214)
Housing	(118,139)	29,750
Local economic development	(516,436)	(86)
Roads transport	(2,617,151)	(5,654,787)
Waste management	(96,543,772)	(9,665,751)
Waste water	19,110,208	1,398,867
Water	100,059,941	(12,837,920)
Total segment assets	**1,090,315,443**	**(954,135,863)**
Reconciling items		
Unallocated assets	(78,950)	-
CaseWare journals not on system	30,676,454	13,382,456
Total as per Statement of financial Position	**1,120,912,947**	**(940,753,407)**

63. Segment information (continued)

2022

	Total segment assets	Total segment liabilities
Community services	67,928,343	(15,270,779)
Electricity	258,033,984	(373,938,096)
Executive council	(79,843,801)	27,771,528
Finance and administration	729,909,476	(347,621,642)
Housing	(120,977)	-
Local economic development	(443,367)	(86)
Roads transport	6,185,311	(5,294,996)
Waste management	(58,082,707)	(27,354,980)
Waste water	32,390,365	(4,900,558)
Water	119,289,815	(3,350,885)
Total segment assets	**1,075,246,442**	**(749,960,494)**
Reconciling items		
Unallocated assets	(78,950)	-
CaseWare journals not on system	45,689,201	(36,232,899)
Total as per Statement of financial Position	**1,120,856,693**	**(786,193,393)**

Figures in Rand	2023	2022

64. Budget differences

Material differences between budget and actual amounts

Overall considerations:

Management Responsibility for Budgetary Control:

The financial statements of Nketoana Local Municipality have been prepared in accordance with the Generally Recognized Accounting Practice (GRAP) 24 - Financial Reporting and Cash Flow Reporting, which sets out the principles and guidelines for presenting budgetary information. It is the responsibility of management to ensure that budgets and actual financial results are reasonably consistent and to disclose material discrepancies between the budgeted figures and the actual figures.

Unfunded Budget Adopted with a Budget Funding Plan:

Nketoana Local Municipality operates under an adopted budget that exhibits a discrepancy between the budgeted figures and the actual figures. This disclosure note aims to provide transparency to the users of the financial statements by explaining the reasons for the variance.

Main reasons for Variance:

The primary reason for the variance between the budgeted figures and the actual figures is the existence of an unfunded budget. An unfunded budget refers to a situation where the resources available to the municipality are insufficient to fully support the planned expenses during the budget period.

The variance between the budgeted and actual figures may occur due to various factors, such as delays in securing funding or unexpected changes in revenue streams or expenditure patterns. It is important to note that while efforts are made to attain financial sustainability, certain factors beyond the municipality's control may influence the actual financial outcomes.

64. Budget differences (continued)

Spesific considerations:

64.1 Stage 6 loadshedding; movement towards Solar Variance is immaterial Billing corrections on major consumer accounts resulted in wastewater revenue figures much higher than budgeted for. Billing corrections on major consumer accounts resulted in water revenue figures being higher than budgeted for.

64.2 Rentals are based on demand and the economy also affects the demand. These factors affected the outcome of the budget versus the actual.

64.3 TThe municipality's collection rate decreased significantly and can be linked to the economy and effect of repo rate increases on consumers' financial stability. When the collection rate decreases, the interest charged on overdue accounts increases.

64.4 This revenue item does not form part of the municipality's core revenue sources and the budget projection was overstated.

64.5 Other income' and 'goods and services' are budgeted for as one line item. The variances relate to non-core services and sales and the projections were incorrect on these items.

64.6 Actual is in excess of the budget and favourable even though the variance amount is deemed to be insignificant.

64.7 The budget projections were not sufficient and incorrectly projected lower revenue than what was actually achieved.

64.8 The budget for interest on consumer accounts is not split between exchange and non-exchange.

64.9 The variance is below 10% when the budget for capital grants is also considered and the projected underspending is the only reason for the remaining insignificant variance.

64.10 The variance % is higher than 10%, but the variance amount is immaterial. Actual fine revenue is dependant on factors that are usually out of the municipality's control.

64.11 The variance is within the 10% norm.

64.12 The prior period total was overstated and when the budget projection was performed it was based on this incorrect (inflated) total.

64.13 The budgeted depreciation includes a provision for impairment losses based on the budget requirements whereas the actual has a split between depreciation and impairment on assets.

64.14 Depreciation and impairment are budgeted for as one line item but then split into two line items in the financial statements resulting in no separate budget with which the actual can be compared.

64.15 Significant increases in repo rate were not budgeted for. Effect of the interest on actuarial calculations and estimates cannot be budgeted for reliably.

64.16 This item was budgeted for as part of general expenses based on mSCOA classification.

64.17 The municipality's collection rate decreased significantly and can be linked to the economy and effect of repo rate increases on consumers' financial stability.

64.18 This item was budgeted for as part of general expenses based on mSCOA classification.

64.19 There is a saving of 27% and can be attributed to items such as water inventory and consumables inventory at yearend compared to the same figures in 2022.

64.20 There is a saving of 32% and this can be linked to the reduced reliance on contractors due financial constraints and an unfunded budget.

64.21 The budget for general expenditure did not contain the same items as the actual expenditure due to differences in line

64. Budget differences (continued)

item splits in the budget and in the annual financial statements. Savings in other line items can be linked overspending in this line item.

64.22 There was no budget for this non-cash item as the line item. The amount is immaterial and can easily swing from gain to loss within one financial year.

64.23 There was no budget for this non-cash item as the line item. The amount is immaterial and can easily swing from gain to loss within one financial year.

64.24 Land inventory was reclassified from investment property with the assistance of asset consultants. This process took place after all budget processes were concluded and the variance could therefore not be controlled.

64.25 The budget is under current assets whilst the actual is under non-current assets

64.26 The budget for this item includes receivables such as VAT. The VAT is however disclosed as a separate line item for the actual expenditure.

64.27 This item is budgeted for under Consumer Debtors and not as a separate line item. When combining the actuals of non-exchange and exchange and compare that total to the budget, there is a less material variance.

64.28 This receivable was not budgeted for in the 2022/2023 annual budget.

64.29 The significant drop in the collection rate was not expected and resulted in a reduced payment rate (creditors) and insufficient VAT receivable budget.

64.30 The budgeted projection was based on payments made in terms of a funding plan and the result was a significant variance when compared to the actual balances.

64.31 This line item is a balancing figure based on the municipality's cash flow calculations. The cash flow is calculated by making use of projections and assumptions (inflation, interest rates, collections, etc.). Over- and under-budgeting in all other line items then result in budget variances in this line item. The actual cash on hand ended up at a much lower figure than the budgeted and was caused by underlying calculations.

64.32 The variance is within the 10% norm.

64.33 The variance is within the 10% norm.

64.34 Depreciation and impairment losses increased significantly and the fact that these were calculated when budget processes were concluded, resulted in the incorrect budget projections.

64.35 The budget for this line item is immaterial. The actual procurement of intangible assets did not materialise due to cash flow constraints.

64.36 The variance is within the 10% norm.

64.37 The variance is within the 10% norm.

64.38 The budget for consumer debtors is split between current and non-current receivables. The actual expenditure is disclosed as one line item under current assets.

64.39 The ESKOM deposits were not budgeted for as a separate line item and resulted in this significant variance when compared to the actual balance.

64.40 The loan balance at yearend is much lower than anticipated and budgeted for. Payment arrangements are not in place and all amounts are overdue resulting in inaccurate budget projections.

64.41 The budget is included in other payables as there is no separate line item in the budget for 'finance leases'.

64.42 The significant increases in the repo rate (finance charges on overdue payables) and the drop in the collections rates (affecting the creditors payments rate) had a combined impact that was not accommodated for in the budget projections.

Notes to the Annual Financial Statements

64. Budget differences (continued)

64.43 The budget projections were inaccurate based on the actual outcome.

64.44 Actuarial provisions were not sufficiently budgeted for as the projections could not anticipate the effect of actuarial assumptions.

64.45 The budget is included in other payables as there is no separate line item in the budget for 'unspent conditional grants'.

64.46 Actuarial provisions were not sufficiently budgeted for as the projections could not anticipate the effect of actuarial assumptions.

64.47 Actuarial provisions were not sufficiently budgeted for as the projections could not anticipate the effect of actuarial assumptions.

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64.49 The variance is due to the loss recognised during the financial year.

64.50 The impact of actuarial valuations is unknown until budget processes have been concluded and could be significant gains or losses. Fair value adjustments on Investment Property is done at yearend when budget processes have been concluded and this then results in significant variances if market conditions were volatile.