

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022



Moqhaka Local Municipality Annual Financial Statements for the year ended 30 June 2022

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

General Information

| | |
|--|---|
| Jurisdiction Number | Municipal demarcation code FS201 |
| Legal form of entity | South African Category B Municipality (Local Municipality) as defined by the Municipal Structures Act (Act no 117 of 1998). Moqhaka Local Municipality is situated within the southern part of the Fezile Dabi District in the Free State province. The seat of local government is Kroonstad. |
| Nature of business and principal activities | Moqhaka is a local municipality performing functions as set out in the Constitution of South Africa (Act 105 of 1996). |
| Mayoral committee | |
| Executive Mayor | Chakane, MS (Terminated) Mokatsane, ME (Appointed 22 Nov 2021) |
| Speaker | Khiba, SV |
| Council Whip | Tladi, SB (Terminated) Semakale, MM (Appointed 22 Nov 2021) |
| Members of the Mayoral Committee | Tau, RD Mbona, ML Ntsala, TM Tshabalala, MP Lulama, MR Khotle, MA Phamotse, EP Ramajoe, EL Ramathibe, BS |
| Grading of local authority | The Moqhaka Municipality is a grade 4 Local Authority in terms of item IV of Government Notice R999 of 2 October 2001, published in terms of the Remuneration of Public Office Bearers Act, 1998. |
| Accounting Officer | Mqwathi, MS (Deceased) Mofokeng, MM (Acting) |
| Chief Finance Officer (CFO) | Marumo, T (Terminated) Maswanganyi, J (Acting) |
| Registered office | Municipal Offices Hill Street Kroonstad 9499 |
| Business address | Municipal Offices Hill Street Kroonstad 9499 |
| Postal address | PO Box 302 Kroonstad 9500 |
| Bankers | ABSA Bank Limited |
| Auditors | Auditor General of South Africa |
| Attorneys | Du Randt & Louw Majavu Incorporated Lebea & Associates |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

General Information

Preparer

The Chief Financial Officer

Members of council

Baba, MN
Boeije, HME
Botha, AV
Chabalala, SM
Dalton, CM
Geldenhuis, J
Lebone, NS
Louwrens, L
Makoko, MP
Marapo, JS
Meko, J
Mnaba, NM
Mofokeng, TG
Morake, ME
Motsoeneng, SM
Mpele, MPE
Muller, ND
Nolo, NM
Pittaway, SH
Ramoolla, MJ
Rankokosane, MD
Roderick, KJ
Saaiman, CJ
Sekhesa, L
Sello, T
Serapela, DJ
Sesing, IS
Thebe, EMM
Tloome, C
Van Heerden, L
Van Schalkwyk, L
Visagie, AJ

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Index

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

| | Page |
|---|-------------|
| Accounting Officer's Responsibilities and Approval | 5 |
| Accounting Officer's Report | 6 |
| Statement of Financial Position | 7 |
| Statement of Financial Performance | 8 |
| Statement of Changes in Net Assets | 9 |
| Cash Flow Statement | 10 |
| Statement of Comparison of Budget and Actual Amounts | 11 |
| Accounting Policies | 12 - 32 |
| Notes to the Annual Financial Statements | 37 - 90 |
| Appendixes: | |
| The following supplementary information does not form part of the annual financial statements and is unaudited: | |
| Appendix A: Schedule of External loans | 91 |
| Appendix B: Analysis of Property, Plant and Equipment | 94 |
| Appendix C: Segmental analysis of Property, Plant and Equipment | 100 |
| Appendix D: Segmental Statement of Financial Performance | 102 |
| Appendix E: Actual versus Budget (Revenue and Expenditure) | 104 |
| Appendix F: Disclosure of Grants and Subsidies in terms of the Municipal Finance Management Act | 107 |

Abbreviations used:

| | |
|------|--|
| DBSA | Development Bank of South Africa |
| GRAP | Generally Recognised Accounting Practice |
| MFMA | Municipal Finance Management Act |
| SCM | Supply Chain Management |
| MIG | Municipal Infrastructure Grant (Previously CMIP) |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Officer's Responsibilities and Approval

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

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

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

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

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

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

I certify that the salaries, allowances and benefits of councillors as disclosed in note 35 of these annual financial statements, are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

The annual financial statements set out on page 7 to 89, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2022 and were signed by:

Mofokeng, MM (Acting)
Accounting Officer

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Officer's Report

The accounting officer submits his report for the year ended 30 June 2022.

1. Review of activities

Main business and operations

The municipality is a local authority providing municipal services and maintaining the best interest of the community in the Moqhaka Municipal Area.

Net deficit of the municipality was R 194 582 384 (2021: deficit R 84 115 345).

2. Going concern

The annual financial statements have been prepared on the basis of accounting policies applicable to a going concern. This basis presumes that funds will be available to finance future operations and that the realisation of assets and settlement of liabilities, contingent obligations and commitments will occur in the ordinary course of business. The analysis of the going concern is clearly depicted in note 54.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year that could have an impact on the annual financial statements, except for matters as outlined in note 56.

4. Accounting Officer's interest in contracts

The accounting officer's did not have any interest in contracts during the financial year.

5. Accounting policies

The financial statements have been prepared in accordance with the effective 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 Financial Management Act, (Act No. 56 of 2003).

6. Accounting Officer

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

| Name | Nationality |
|------------------------|---------------|
| Mqwathi, MS (Deceased) | South African |
| Mofokeng, MM (Acting) | South African |

7. Auditors

Auditor General of South Africa will continue in office for the next financial period.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Position as at 30 June 2022

| Figures in Rand | Note(s) | 2022 | 2021 Restated* |
|--|---------|----------------------|----------------------|
| Assets | | | |
| Current Assets | | | |
| Cash and cash equivalents | 3 | 41 563 356 | 32 729 244 |
| Inventories | 4 | 98 192 951 | 90 707 530 |
| Investments | 5 | 112 026 | 106 792 |
| Receivables from exchange transactions | 6 | 397 000 234 | 345 139 010 |
| Receivables from non-exchange transactions | 7 | 64 130 094 | 58 689 649 |
| VAT receivable | 8 | 118 332 046 | 89 444 844 |
| | | 719 330 707 | 616 817 069 |
| Non-Current Assets | | | |
| Investments | 5 | 281 540 | 251 946 |
| Receivables from exchange transactions | 6 | 2 130 908 | 1 528 824 |
| Receivables from non-exchange transactions | 7 | 244 122 | 219 686 |
| Heritage assets | 9 | 7 761 921 | 7 761 921 |
| Intangible assets | 10 | 2 816 557 | 2 742 315 |
| Investment property | 11 | 107 623 327 | 105 837 439 |
| Property, plant and equipment | 12 | 1 946 747 431 | 1 988 380 414 |
| | | 2 067 605 806 | 2 106 722 545 |
| Total Assets | | 2 786 936 513 | 2 723 539 614 |
| Liabilities | | | |
| Current Liabilities | | | |
| Consumer deposits | 13 | 14 413 657 | 13 441 256 |
| Finance lease obligation | 14 | 942 792 | 175 105 |
| Borrowings | 15 | 12 654 537 | 14 289 087 |
| Payables from exchange transactions | 16 | 942 404 039 | 235 223 184 |
| Provisions | 17 | 58 000 | 67 000 |
| Unspent conditional grants and receipts | 18 | 4 822 150 | 19 338 574 |
| Employee benefit obligation | 19 | 7 244 490 | 6 619 327 |
| Eskom payment arrangement | 20 | - | 45 000 000 |
| | | 982 539 665 | 334 153 533 |
| Non-Current Liabilities | | | |
| Finance lease obligation | 14 | 2 416 237 | - |
| Borrowings | 15 | 11 757 098 | 14 166 372 |
| Provisions | 17 | 111 511 971 | 107 488 501 |
| Employee benefit obligation | 19 | 58 639 000 | 55 133 000 |
| Eskom payment arrangement | 20 | - | 282 653 727 |
| Interest concession | 21 | - | 115 289 547 |
| | | 184 324 306 | 574 731 147 |
| Total Liabilities | | 1 166 863 971 | 908 884 680 |
| Net Assets | | 1 620 072 542 | 1 814 654 934 |
| Accumulated surplus | | 1 620 072 542 | 1 814 654 934 |
| Total Net Assets | | 1 620 072 542 | 1 814 654 934 |

* See Note 51

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Financial Performance

| Figures in Rand | Note(s) | 2022 | 2021 Restated* |
|---|---------|----------------------|----------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 22 | 555 326 952 | 512 887 743 |
| Rental of facilities and equipment | 23 | 5 043 682 | 4 446 431 |
| Fees | 24 | 208 378 | 322 238 |
| Interest received | 25 | 31 041 016 | 25 266 142 |
| Other income | 26 | 17 265 724 | 28 144 717 |
| Fair value adjustments | 27 | 2 043 982 | 1 152 660 |
| Gains on employee benefit obligation | 28 | 925 000 | 2 371 999 |
| Total revenue from exchange transactions | | 611 854 734 | 574 591 930 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Service charges (Availability charges) | 22 | 706 989 | - |
| Property rates | 29 | 74 402 755 | 76 835 758 |
| Transfer revenue | | | |
| Government grants and subsidies | 30 | 313 740 873 | 316 034 517 |
| Public contributions and donations | 31 | 517 047 | 5 344 094 |
| Fines | 32 | 3 381 411 | 2 033 190 |
| Total revenue from non-exchange transactions | | 392 749 075 | 400 247 559 |
| Total revenue | 33 | 1 004 603 809 | 974 839 489 |
| Expenditure | | | |
| Losses on employee benefit obligation | 28 | 2 822 878 | - |
| Employee related costs | 34 | 327 453 995 | 311 882 877 |
| Remuneration of councillors | 35 | 19 486 076 | 19 711 279 |
| Repairs and maintenance | 36 | 85 773 289 | 79 475 539 |
| Depreciation and amortisation | 37 | 108 482 507 | 110 342 712 |
| Impairment loss on assets | 38 | 13 390 723 | 143 485 |
| Finance costs | 39 | 73 897 023 | 31 367 625 |
| Debt impairment | 40 | 66 883 066 | 80 489 324 |
| Bulk purchases | 41 | 336 647 480 | 291 442 957 |
| Contracted services | 42 | 71 641 576 | 53 755 145 |
| Loss on disposal of assets | 43 | 4 171 231 | 550 825 |
| General expenses | 44 | 88 536 349 | 79 793 066 |
| Total expenditure | | 1 199 186 193 | 1 058 954 834 |
| Deficit for the year | | (194 582 384) | (84 115 345) |

* See Note 51

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus / deficit | Total net assets |
|---|-------------------------------|----------------------|
| Opening balance as previously reported | 1 893 077 667 | 1 893 077 667 |
| Adjustments | | |
| Prior year adjustments, Note 51 | 5 692 612 | 5 692 612 |
| Balance at 01 July 2020 as restated* | 1 898 770 279 | 1 898 770 279 |
| Deficit for the year | (84 115 345) | (84 115 345) |
| Total changes | (84 115 345) | (84 115 345) |
| Restated* Balance at 01 July 2021 | 1 814 654 926 | 1 814 654 926 |
| Deficit for the year | (194 582 384) | (194 582 384) |
| Total changes | (194 582 384) | (194 582 384) |
| Balance at 30 June 2022 | 1 620 072 542 | 1 620 072 542 |

* See Note 51

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Cash Flow Statement

| Figures in Rand | Note(s) | 2022 | 2021 Restated* |
|---|---------|----------------------------|----------------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Customers | | 536 488 015 | 452 480 691 |
| Grants | | 299 224 449 | 318 902 776 |
| Interest | | 1 150 843 | 879 654 |
| Other receipts | | 29 362 201 | 43 799 660 |
| Dividends | | 23 023 | 15 669 |
| | | <u>866 248 531</u> | <u>816 078 450</u> |
| Payments | | | |
| Employee costs | | (345 042 193) | (333 966 155) |
| Suppliers | | (422 730 547) | (408 274 576) |
| | | <u>(767 772 740)</u> | <u>(742 240 731)</u> |
| Net cash flows from operating activities | 46 | <u>98 475 791</u> | <u>73 837 719</u> |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 12 | (85 722 369) | (54 261 049) |
| Purchase of intangible assets | 10 | (498 000) | (293 380) |
| Additions of investments | 5 | (5 234) | (3 711) |
| Net cash flows from investing activities | | <u>(86 225 603)</u> | <u>(54 558 140)</u> |
| Cash flows from financing activities | | | |
| Repayment of borrowings | 15 | (6 600 000) | (550 000) |
| Finance lease repayments | | (1 645 956) | (1 053 683) |
| Increase in finance lease liabilities | | 4 829 880 | - |
| Net cash flows from financing activities | | <u>(3 416 076)</u> | <u>(1 603 683)</u> |
| Net increase/(decrease) in cash and cash equivalents | | 8 834 112 | 17 675 896 |
| Cash and cash equivalents at the beginning of the year | | 32 729 244 | 15 053 348 |
| Cash and cash equivalents at the end of the year | 3 | <u>41 563 356</u> | <u>32 729 244</u> |

* See Note 51

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|--|----------------------|---------------------|------------------------|------------------------------------|--|-----------|
| Figures in Rand | | | | | | |
| Statement of Financial Performance | | | | | | |
| Revenue | | | | | | |
| Revenue from exchange transactions | | | | | | |
| Service charges | 637 523 000 | 14 150 000 | 651 673 000 | 555 326 952 | (96 346 048) | 22 |
| Rental of facilities and equipment | 7 943 000 | 1 000 | 7 944 000 | 5 043 682 | (2 900 318) | 23 |
| Other income | 14 895 000 | 5 704 000 | 20 599 000 | 20 443 084 | (155 916) | 26 |
| Interest received | 32 808 000 | 251 000 | 33 059 000 | 31 041 016 | (2 017 984) | 25 |
| Total revenue from exchange transactions | 693 169 000 | 20 106 000 | 713 275 000 | 611 854 734 | (101 420 266) | |
| Revenue from non-exchange transactions | | | | | | |
| Taxation revenue | | | | | | |
| Service charges (Availability charges) | - | - | - | 706 989 | 706 989 | 22 |
| Property rates | 84 416 000 | (5 857 000) | 78 559 000 | 74 402 755 | (4 156 245) | 29 |
| Transfer revenue | | | | | | |
| Government grants & subsidies | 236 129 000 | 6 500 000 | 242 629 000 | 236 180 262 | (6 448 738) | 30 |
| Public contributions and donations | - | - | - | 517 047 | 517 047 | 31 |
| Fines | 6 019 000 | (20 000) | 5 999 000 | 3 381 411 | (2 617 589) | 32 |
| Total revenue from non-exchange transactions | 326 564 000 | 623 000 | 327 187 000 | 315 188 464 | (11 998 536) | |
| Total revenue | 1 019 733 000 | 20 729 000 | 1 040 462 000 | 927 043 198 | (113 418 802) | |
| Expenditure | | | | | | |
| Employee costs | (322 955 000) | (10 110 000) | (333 065 000) | (327 453 995) | 5 611 005 | 34 |
| Remuneration of councillors | (20 693 000) | (541 000) | (21 234 000) | (19 486 076) | 1 747 924 | 35 |
| Depreciation and amortisation | (9 676 000) | (1 422 000) | (11 098 000) | (108 482 507) | (97 384 507) | 37 |
| Finance costs | (3 620 000) | (4 980 000) | (8 600 000) | (73 897 023) | (65 297 023) | 39 |
| Debt Impairment | (95 496 000) | 14 091 000 | (81 405 000) | (66 883 066) | 14 521 934 | 40 |
| Bulk purchases | (318 434 000) | 970 000 | (317 464 000) | (336 647 480) | (19 183 480) | 41 |
| General Expenses | (84 878 000) | (22 786 000) | (107 664 000) | (108 921 181) | (1 257 181) | 44 |
| Contracted Services | (130 293 000) | (2 760 000) | (133 053 000) | (157 414 865) | (24 361 865) | 42 |
| Total expenditure | (986 045 000) | (27 538 000) | (1 013 583 000) | (1 199 186 193) | (185 603 193) | |
| Operating surplus (Deficit) | 33 688 000 | (6 809 000) | 26 879 000 | (272 142 995) | (299 021 995) | |
| Transfers recognised - capital | 79 058 000 | 3 427 000 | 82 485 000 | 77 560 611 | (4 924 389) | |
| Capital Expenditure | (79 058 000) | (3 427 000) | (82 485 000) | - | 82 485 000 | |
| | - | - | - | 77 560 611 | 77 560 611 | |
| Deficit before taxation | 33 688 000 | (6 809 000) | 26 879 000 | (194 582 384) | (221 461 384) | |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 33 688 000 | (6 809 000) | 26 879 000 | (194 582 384) | (221 461 384) | |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

| Figures in Rand | Note(s) | 2022 | 2021 |
|-----------------|---------|------|------|
|-----------------|---------|------|------|

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.

These annual financial statements comply with all the requirements of the Standards of Generally Recognised Accounting Practice.

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

1.1 Presentation currency

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

1.2 Significant judgements and sources of estimation uncertainty

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

Services and rates debtors

The municipality assesses its Services and rates debtors for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the municipality 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 Services and rates debtors is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

Allowance for slow moving, damaged and obsolete stock

An allowance for stock write-down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the statement of financial performance in the year in which it arose.

Fair value estimation

The fair value of investment properties is determined with reference to market conditions as at year end. This valuation was performed by a registered professional valuer.

Provisions

Provisions were raised and management determined an estimate based on the best information available at the time of making the judgement and estimate of the financial effect.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Useful lives and residual values

The municipality's management determines the estimated useful lives and related depreciation / amortisation charges for the property, plant and equipment as well as intangible assets. The municipality re-assess the useful lives and the residual values if material of the individual asset. This estimate is based on industry norms and future plans of the municipality communicated through its strategic planning processes.

If material, management will change the depreciation consideration of the condition and actual use charge where useful lives are more / less than previously estimated.

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 government 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.

Effective interest rate and deferred payment terms

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

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

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.2 Significant judgements and sources of estimation uncertainty (continued)

Bad debts

All financial assets measured at amortised cost, or cost, are subject to an impairment review in accordance with paragraphs .57 to .64 of GRAP 104

A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the holder of the asset about the following loss events:

- (a) significant financial difficulty of the issuer or obligor;
- (b) a breach of contract, such as a default or delinquency in interest or principal payments;
- (c) the lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider;
- (d) it is probable that the borrower will enter sequestration or other financial reorganisation;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group, including:
 - (i) adverse changes in the payment status of borrowers in the group (e.g. an increased number of delayed payments); or
 - (ii) national or local economic conditions that correlate with defaults on the assets in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers, or adverse changes in market conditions that affect the borrowers in the group).

An entity first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant (see paragraph .58). If an entity determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

1.3 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.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.3 Investment property (continued)

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.

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 municipality 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.

Derecognition

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

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 the municipality leases out the property and receives rental income.

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:

- Determining any cash generations independent from other assets.
- Purpose of holding the asset, whether generally held to earn rental income or for capital appreciation.

The municipality separately discloses expenditure to repair and maintain investment property in the notes to the annual financial statements (see note 36).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the annual financial statements (see note 36).

1.4 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.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.4 Property, plant and equipment (continued)

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.

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

An item of property, plant and equipment that qualifies for recognition as an asset shall be measured at its cost

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

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

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

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

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

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

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

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

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

An entity applies GRAP 12 to the costs of obligations for dismantling, removing and restoring the site on which an item is located that are incurred during a particular period as a consequence of having used the item to produce inventories during that period. The obligations for costs accounted for in accordance with GRAP 12 or this Standard are recognised and measured in accordance with the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets

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

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 | 25 - 30 years |
| Building Fixtures | Straight line | 3 - 5 years |
| Plant and machinery | Straight line | 2 - 40 years |
| Furniture and fixtures | Straight line | 3 - 15 years |
| Motor vehicles | Straight line | 5- 15 years |
| Office equipment | Straight line | 3 - 15 years |
| IT equipment | Straight line | 3 - 10 years |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.4 Property, plant and equipment (continued)

| | | |
|-----------------------------|---------------|---------------|
| Infrastructure | Straight line | 5 - 100 years |
| Community | Straight line | 15 - 30 years |
| Quarries | Straight line | 15 - 20 years |
| Landfill sites | Straight line | 15 - 80 years |
| Finance leases - 3G cards | Straight line | Contract Term |
| Finance leases - Cellphones | Straight line | Contract Term |
| Solid waste | Straight line | 5 - 55 years |
| Waste water network | Straight line | 5 - 100 years |

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

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

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

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

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

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 36).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 36).

Impairment

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

Transfer

Transfers from property, plant, and equipment assets are only made when the particular asset no longer meets the definition of a property, plant, and equipment.

Transfers to property, plant, and equipment are only made when the asset meets the definition of a property, plant, and equipment.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.5 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore certain 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.

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
 - a decrease in the liability (subject to (b)) is credited 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
 - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) 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; and
- (c) 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 end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

1.6 Heritage assets

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

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

Class of heritage assets means a grouping of heritage assets of a similar nature or function in 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.

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

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

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

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

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

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

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.6 Heritage assets (continued)

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.

The municipality separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (see note 36).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 36).

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

Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date.

If a heritage asset is revalued, the entire class of heritage assets to which that asset belongs shall be revalued.

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

There is a presumption that fair value can be measured reliably for a heritage asset. However, that presumption can be rebutted when market-determined prices or values are not available and alternative estimates of fair value are determined to be clearly unreliable. In such a case, the heritage asset shall be measured using the cost model. The carrying amount of the heritage asset shall be its revalued amount at the date of the last revaluation less any subsequent accumulated impairment losses.

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

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.

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.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.6 Heritage assets (continued)

Transfers

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

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

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).

1.7 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.

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.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.7 Intangible assets (continued)

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, internally generated | Straight line | 20 years |
| Computer software | Straight line | 3 - 5 years |

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

Residual value

The residual value of an intangible asset with a finite useful life shall be assumed to be zero unless there is a commitment by a third party to acquire the asset at the end of its useful life; or there is an active market for the asset and:

- (i) residual value can be determined by reference to that market; and
- (ii) it is probable that such a market will exist at the end of the asset's useful life.

Intangible assets are derecognised:

- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of intangible assets is included in surplus or deficit when the asset is derecognised.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.8 Financial instruments

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.

Classification

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position into the following categories:

| Class | Category |
|--|--|
| Receivables from exchange transactions | Financial asset measured at amortised cost |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |
| Other financial assets | Financial asset measured at fair value |
| Investments | Financial asset measured at amortised cost |
| Cash and Cash equivalents | 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 |
|-------------------------------------|--|
| Borrowings | Financial liability measured at amortised cost |
| Payables from exchange transactions | Financial liability measured at amortised cost |

Initial recognition

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

The entity recognises financial assets using trade date accounting.

Initial measurement of financial assets and financial liabilities

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

The entity measures a financial asset and financial liability initially at its fair value if subsequently measured at fair value.

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.8 Financial instruments (continued)

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

Gains and losses

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

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

Impairment and uncollectability of financial assets

The entity assesses at the end of each reporting period whether there is any objective evidence that a financial asset or group of financial assets is impaired.

Financial assets measured at amortised cost:

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

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

Derecognition

Financial assets

The entity derecognises financial assets using trade date accounting.

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

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

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

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.8 Financial instruments (continued)

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

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

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

Financial liabilities

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

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

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

Presentation

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

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

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

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

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

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.9 Tax

Value Added Tax (VAT)

VAT comprises current and non-current VAT (deferred VAT). VAT is accounted for on an accrual basis, but the VAT declarations to the South African Revenue Services (SARS) are made on a payment basis in terms of section 15 of the Value-Added Tax Act 89 of 1991 (VAT Act). On a payment basis, the municipality must declare output tax when the recipient makes payment according to a taxable supply made to the recipient by the municipality. The municipality is liable to account for VAT at the standard rate of 15% in terms of section 7(1)(a) of the VAT Act in respect or response to a taxable supply of goods or services. Where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes, no output tax is declared to the SARS. The municipality can deduct input tax on qualifying VAT expenditure in terms of section 16 of the VAT Act also on the payment basis when they make payments to suppliers and the VAT expenditure is incurred in the course or furtherance of a taxable activity.

A VAT asset is recognised to the extent that the municipality will be able to deduct the net input tax in future VAT declarations to the SARS. VAT assets are reviewed at each reporting date and are adjusted based on the probability that the VAT asset can be realised in future VAT declarations to the SARS. The VAT asset will be reduced to the extent that it is no longer probable that the VAT asset will be realised. A VAT liability is recognised to the extent that the municipality will be obligated to declare a net output tax in future VAT declarations to the SARS.

The municipality assesses at each reporting date whether there is an indication that its output tax amount payable to the SARS is impaired. If any such indication exists, the municipality estimates the output tax payable amount based on observable data indicating a measurable decrease in the estimated future cash flows expected from its customers.

The VAT is offset in the statement of financial position because offsetting reflects the substance of the transaction as VAT is declared to the SARS on a net basis.

VAT is recognised using the VAT rates enacted or substantially enacted at the financial position date and considering any VAT payable or receivable adjustment in the past years.

1.10 Leases

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

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

Finance leases - lessor

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

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

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.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.10 Leases (continued)

Operating leases - lessor

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

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

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

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

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

Operating leases - lessee

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

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

1.11 Inventories

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

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

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

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

Inventories shall be recognised as an asset if, and only if,

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

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.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.12 Employee benefits

Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

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.

Defined contribution plans

Payments to defined contribution retirement benefit plans are charged as an expense as they fall due.

Payments made to industry-managed (or state plans) retirement benefit schemes are dealt with as defined contribution plans where the entity's obligation under the schemes is equivalent to those arising in a defined contribution retirement benefit plan.

Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs: Recognise past service costs as an expense in the reporting period in which the plan is amended.

Actuarial gains or losses: Actuarial gains and losses are recognised in the surplus or deficit in the reporting period in which they occur.

Gains or losses on the curtailment or settlement of a defined benefit plan are recognised when the entity is demonstrably committed to curtailment or settlement.

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

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

Post-retirement obligations

The entity 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. Independent qualified actuaries carry out valuations of these obligations. The benefits are charge to income as incurred throughout the year.

1.13 Provisions and contingencies

Provisions are recognised when:

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

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.13 Provisions and contingencies (continued)

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

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

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

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

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

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.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 57.

1.14 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.

When uncertainty arises about the collectability of an amount already included in revenue, the uncollectable amount, or the amount in respect of which recovery has ceased to be probable, is recognised as an expense rather than as an adjustment of the amount of revenue originally recognised.

Measurement

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

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.14 Revenue from exchange transactions (continued)

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Interest 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.

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

Penalty interest is levied on unpaid amounts each month. This revenue is recognised when leviable in terms of law.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.15 Revenue from non-exchange transactions

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

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

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

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

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

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

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.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.15 Revenue from non-exchange transactions (continued)

Taxes

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

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.

Transfers

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.

Fines

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

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

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

Gifts and donations, including goods in-kind

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

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.

1.16 Borrowing costs

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

1.17 Comparative amounts

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

Then the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are restated. The nature and reason for the reclassification is disclosed in note 51.

Where accounting errors have been identified in the current year, the correction is made retrospectively as far as practical, and the prior period comparatives are restated accordingly.

1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.18 Unauthorised expenditure (continued)

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

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

1.19 Fruitless and wasteful expenditure

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

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

1.20 Irregular expenditure

According to section 1 of the MFMA: "irregular expenditure", in relation to a municipality or municipal entity, means -

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

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

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

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

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

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

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.21 Offsetting

Assets, liabilities, revenue and expenses have not been offset except when offsetting is required or permitted by a Standard of GRAP.

1.22 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

Other Grants and Donations

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

Other grants and donations shall be recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the entity,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

1.23 Segment information

A segment is an activity of an entity:

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

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

Measurement

The amount of each segment item reported is the measure reported to management for the purposes of making decisions about allocating resources to the segment and assessing its performance. Adjustments and eliminations made in preparing the entity's financial statements and allocations of revenues and expenses are included in determining reported segment surplus or deficit only if they are included in the measure of the segment's surplus or deficit that is used by management. Similarly, only those assets and liabilities that are included in the measures of the segment's assets and segment's liabilities that are used by management are reported for that segment. If amounts are allocated to reported segment surplus or deficit, assets or liabilities, those amounts are allocated on a reasonable basis.

If management uses only one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities in assessing segment performance and deciding how to allocate resources, segment surplus or deficit, assets and liabilities are reported in terms of that measure. If management uses more than one measure of a segment's surplus or deficit, the segment's assets or the segment's liabilities, the reported measures are those that management believes are determined in accordance with the measurement principles most consistent with those used in measuring the corresponding amounts in the entity's financial statements.

1.24 Related parties

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

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

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.25 Contractual Commitments

Items are classified as commitments where the Municipality commits itself to future transactions that will normally result in the outflow of resources.

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

- Approved and contracted commitments, where the expenditure has been approved and the contract has been awarded at the reporting date, where disclosure is required by a specific standard of GRAP.
- Approved but not yet contracted commitments, where the expenditure has been approved and the contract is yet to be awarded or is awaiting finalisation at the reporting date.
- Items are classified as commitments where the municipality commits itself to future transactions that will normally result in the outflow of resources.
- Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure notes to the financial statements.

1.26 Events after the reporting date

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

1.27 Budget information

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

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

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

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

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

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exists. All material differences are explained in Appendix E to the annual financial statements.

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

1.28 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.

The transaction amount (for purposes of this Standard) for a statutory receivable means the amount specified in, or calculated, levied or charged in accordance with, legislation, supporting regulations, or similar means. Terms defined in other Standards of GRAP are used in this Standard with the same meaning as in those other Standards.

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

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.28 Statutory receivables (continued)

- 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

An entity shall initially measure statutory receivables at their transaction amount. The statutory receivables in paragraph .06 shall be measured initially in accordance with the applicable Standard of GRAP. The amount determined on initial measurement in accordance with another Standard of GRAP is the same as the transaction amount described in this Standard..

Subsequent measurement

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

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

Accrued interest

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

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

Impairment losses

An entity shall assess at each reporting date whether there is any indication that a statutory receivable, or a group of statutory receivables, may be impaired. If any such indication exists, the entity shall apply paragraphs .22 to .29.

The future cash flows of a group of statutory receivables that are collectively evaluated for impairment can be estimated using historical experience for receivables with similar characteristics. Entities that have no entity-specific historical experience or insufficient experience, can use peer group experience (when available) for comparable groups of statutory receivables. Historical experience may need to be adjusted to reflect the effects of current conditions that did not affect the period on which the historical experience is based and, to remove the effects of conditions in the historical period that do not exist currently. Where historical experience is used, the methodology and assumptions used to estimate future cash flows shall be reviewed regularly to reduce any differences between estimated and actual impairment losses.

An impairment loss recognized in prior periods for a statutory receivable shall be revised if there has been a change in the estimates used since the last impairment loss was recognized, or to reflect the effect of discounting the estimated cash flows in accordance with paragraph .23.

Derecognition

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

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

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

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Accounting Policies

1.29 National Housing Programme

The Moqhaka Local Municipality is a Category B municipality. The municipality is not yet accredited for the housing development scheme. The municipality is currently in the process of a level 1 accreditation. However, the municipality is still required in terms of the guidelines on accounting for arrangements undertaken in terms of the National Housing Programme.

In terms of this level 1 accreditation, the municipality is required to identify and plan local housing programmes and projects. This is done through the Municipal Human Settlements Plan (MHSP), which is integrated into the municipality's Integrated Development Plan (IDP). The IDP has been approved through a Council resolution and subsequently submitted to the MEC for Local Government for review and comment.

In complying with the requirements of the ASB guidelines, the municipality further identified sites for Reconstruction and Development Programme (RDP) development. These sites have been included as inventory in the Annual Financial Statements.

The municipality makes available the land earmarked for RDP housing construction as classified under inventory on vacant sites to the provincial Department of Human Settlement and disposes of the land once beneficiaries take ownership and/or when deeds registrations are finalised.

Beneficiary management

The municipality assists in the collection of application forms from beneficiaries, informing eligible beneficiaries of the outcome of their application by the relevant provincial Department of Human Settlements and assisting with the handover of the houses.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

2. New standards and interpretations

2.1 Standards and interpretations issued

The following standards and amendments to standards have been issued but are not yet effective.

Standard/ Interpretation:

Amendments

GRAP 104 on Financial instruments (revised)
iGRAP 21 on the effect of past decisions on materiality
GRAP 25 on Employee benefits (revised)
iGRAP 7
Guideline on Accounting for landfill sites

Effective date:

Years beginning on or after

01 April 2025
01 April 2023
To be determined
To be determined
01 April 2023

Standard/ Interpretation issued, but not yet effective:

Effective date:

Years beginning on or after

Expected impact:

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 2022 or later periods:

The Application of Standards of GRAP by Public Entities that Apply IFRS Standards
The Effect of Past Decisions on Materiality

01 April 2022

01 April 2022

Unlikely there will be material impact

Unlikely there will be material impact

Expected impact:

Unlikely there will be a material impact.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

3. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---------------------|-------------------|-------------------|
| Cash on hand | 24 394 | 24 394 |
| Bank balances | 27 365 409 | 6 106 474 |
| Short-term deposits | 14 173 553 | 26 598 376 |
| | 41 563 356 | 32 729 244 |

Cash and cash equivalents pledged as collateral

| | | |
|--|--------|--------|
| Guarantee issued to the Department of Mineral Resources | 50 000 | 50 000 |
| This cession is linked to ABSA notice deposit account number: 205-8247-882 | | |

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|-------------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
| | 30 June 2022 | 30 June 2021 | 30 June 2020 | 30 June 2022 | 30 June 2021 | 30 June 2020 |
| ABSA BANK - Cheque Account-405-327-4876 | 27 353 182 | 6 103 851 | 5 316 301 | 27 352 310 | 6 103 851 | 5 316 301 |
| Cash on hand | - | - | - | 24 394 | 24 394 | 24 394 |
| Accrued interest | - | 3 310 | 2 523 | 13 099 | 3 310 | 2 523 |
| ABSA BANK - Call Account - 91-3190-1443 | 14 172 135 | 26 598 376 | 9 710 130 | 14 173 553 | 26 598 376 | 9 710 130 |
| Total | 41 525 317 | 32 705 537 | 15 028 954 | 41 563 356 | 32 729 931 | 15 053 348 |

4. Inventories

| | | |
|------------------------------|-------------------|-------------------|
| Consumable stores | 24 705 417 | 14 086 665 |
| Vacant Sites held for resale | 73 222 749 | 76 390 449 |
| Water | 264 785 | 230 416 |
| | 98 192 951 | 90 707 530 |

Consumable Inventory held by the municipality increased by R 10 618 752 in the current year (2021 increase: R 3 126 394).

Vacant sites by the municipality decreased by R 3 167 700 in the current year (2021 decrease: R 52 887).

Water Inventory held by the municipality increased R 34 369 in the current year (2021 decrease: R 2 151).

During the year inventory that were expensed through the Statement of Financial Performance amounted to R 9 532 230 (2021: R6 951 133).

No Inventories have been pledged as collateral for liabilities of the municipality.

5. Investments

Designated at fair value

| | | |
|---------------|---------|---------|
| ABSA deposits | 112 026 | 106 792 |
|---------------|---------|---------|

At fair value

| | | |
|--------|---------|---------|
| Senwes | 165 508 | 137 726 |
|--------|---------|---------|

The fair value is based on quoted price from active markets for identical assets and is therefore a level 1. (11 822 shares at R14.00)

| | | |
|-----------|---------|---------|
| Senwesbel | 116 032 | 114 220 |
|-----------|---------|---------|

The fair value is based on quoted price from active markets for identical assets and is therefore a level 1. (18 130 shares at R6.40)

| | | |
|--|----------------|----------------|
| | 281 540 | 251 946 |
|--|----------------|----------------|

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|----------------------|----------------------|
| 5. Investments (continued) | | |
| Total other financial assets | 393 566 | 358 738 |
| Non-current assets | | |
| At fair value | 281 540 | 251 946 |
| Current assets | | |
| At amortised cost | 112 026 | 106 792 |
| Financial assets at fair value | | |
| Fair value hierarchy of financial assets at fair value | | |
| For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels: | | |
| Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets. | | |
| Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices). | | |
| Level 3 applies inputs which are not based on observable market data. | | |
| 6. Receivables from exchange transactions | | |
| Gross balances | | |
| Electricity | 100 478 496 | 83 666 088 |
| Water | 588 000 723 | 516 812 360 |
| Waste Water | 161 337 802 | 140 588 218 |
| Waste | 115 469 949 | 100 076 630 |
| Other Services | 84 842 078 | 77 609 493 |
| Prepayments | 3 622 596 | 11 155 809 |
| | 1 053 751 644 | 929 908 598 |
| Less: Allowance for impairment | | |
| Electricity | (33 350 286) | (23 626 840) |
| Water | (418 398 466) | (368 938 232) |
| Waste Water | (75 132 812) | (76 274 893) |
| Waste | (54 327 064) | (54 709 799) |
| Other services* | (75 542 782) | (61 219 824) |
| | (656 751 410) | (584 769 588) |
| Net balance | | |
| Electricity | 67 128 210 | 60 039 248 |
| Water | 169 602 257 | 147 874 128 |
| Waste Water | 86 204 990 | 64 313 325 |
| Waste | 61 142 885 | 45 366 831 |
| Other services | 9 299 296 | 16 389 669 |
| Prepayments | 3 622 596 | 11 155 809 |
| | 397 000 234 | 345 139 010 |
| Included in above is receivables from exchange transactions | | |
| Rentals | 664 567 | 590 817 |
| Sundry services | 84 177 511 | 77 018 676 |
| | 84 842 078 | 77 609 493 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|--------------------|--------------------|
| 6. Receivables from exchange transactions (continued) | | |
| The following categories are included in the balance of Sundry Services: | | |
| 1. Burial and Cemeteries | | |
| 2. Advertising and Signs | | |
| 3. Building Plans | | |
| 4. Fire & Rescue Services | | |
| 5. Connection of Water and Sanitation | | |
| 6. Clearance Certificates | | |
| 7. Sale of Stands, etc. | | |
| Electricity | | |
| Current (0 -30 days) | 13 114 990 | 15 931 418 |
| 31 - 60 days | 1 013 875 | 5 131 846 |
| 61 - 90 days | 961 497 | 3 500 624 |
| 91 - 120 days | 52 037 848 | 35 475 360 |
| | 67 128 210 | 60 039 248 |
| Water | | |
| Current (0 -30 days) | 7 332 609 | 3 783 489 |
| 31 - 60 days | 3 045 941 | 3 915 619 |
| 61 - 90 days | 2 888 584 | 3 189 494 |
| 91 - 120 days | 156 335 123 | 136 985 526 |
| | 169 602 257 | 147 874 128 |
| Sewerage | | |
| Current (0 -30 days) | 3 138 513 | 2 141 257 |
| 31 - 60 days | 1 559 229 | 1 584 009 |
| 61 - 90 days | 1 478 678 | 1 460 082 |
| 91 - 120 days | 80 028 570 | 59 127 977 |
| | 86 204 990 | 64 313 325 |
| Refuse | | |
| Current (0 -30 days) | 2 274 961 | 1 419 618 |
| 31 - 60 days | 1 105 002 | 1 043 952 |
| 61 - 90 days | 1 047 916 | 965 416 |
| 91 - 120 days | 56 715 006 | 41 937 845 |
| | 61 142 885 | 45 366 831 |
| Other services | | |
| Current (0 -30 days) | 228 532 | 170 962 |
| 31 - 60 days | 170 266 | 319 806 |
| 61 - 90 days | 161 470 | 122 110 |
| 91 - 120 days | 8 739 028 | 15 776 791 |
| | 9 299 296 | 16 389 669 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|----------------------|----------------------|
| 6. Receivables from exchange transactions (continued) | | |
| Summary of debtors by customer classification | | |
| Consumers | | |
| Current (0 -30 days) | 16 017 757 | 18 134 550 |
| 31 - 60 days | 13 699 112 | 17 050 391 |
| 61 - 90 days | 12 971 317 | 14 814 178 |
| 91 - 120 days | 887 066 489 | 772 853 263 |
| | <u>929 754 675</u> | <u>822 852 382</u> |
| Less: Allowance for impairment | (634 561 845) | (567 449 579) |
| | 295 192 830 | 255 402 803 |
| Industrial/ commercial | | |
| Current (0 -30 days) | 4 608 520 | 14 902 632 |
| 31 - 60 days | 2 450 574 | 4 314 409 |
| 61 - 90 days | 2 318 279 | 2 431 126 |
| 91 - 120 days | 76 457 730 | 32 151 511 |
| | <u>85 835 103</u> | <u>53 799 678</u> |
| Less: Allowance for impairment | (22 189 565) | (17 270 009) |
| | 63 645 538 | 36 529 669 |
| National and provincial government | | |
| Current (0 -30 days) | 4 570 965 | 5 119 904 |
| 31 - 60 days | 2 400 716 | 5 118 276 |
| 61 - 90 days | 2 333 747 | 3 893 225 |
| 91 - 120 days | 25 233 841 | 27 969 324 |
| | <u>34 539 269</u> | <u>42 100 729</u> |
| Total | | |
| Current (0 -30 days) | 25 197 241 | 43 676 223 |
| 31 - 60 days | 18 550 403 | 23 011 812 |
| 61 - 90 days | 17 623 343 | 15 224 602 |
| 91 - 120 days | 988 758 061 | 836 840 152 |
| | <u>1 050 129 048</u> | <u>918 752 789</u> |
| Less: Allowance for impairment | (656 751 410) | (584 769 588) |
| | 393 377 638 | 333 983 201 |
| Reconciliation of allowance for impairment | | |
| Balance at beginning of the year | (584 769 588) | (500 840 293) |
| Contributions to allowance | (656 751 410) | (584 769 588) |
| Reversal of allowance | 584 769 588 | 500 840 293 |
| | <u>(656 751 410)</u> | <u>(584 769 588)</u> |
| Non-Current Receivables from exchange transactions | | |
| > 365 days | <u>2 130 908</u> | <u>1 528 824</u> |
| Prepayments | | |
| Current (0 -30 days) | <u>3 622 596</u> | <u>11 155 809</u> |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

6. Receivables from exchange transactions (continued)

Non-Current Receivables from exchange transactions

Arrangements included in the above receivables from exchange transactions amounting to R 2 130 908 (2021: R 1 528 824), is a number of consumers with whom arrangements have been made to pay the debt over a period longer than one year.

No receivable from exchange transaction have been pledged as collateral for liabilities of the municipality.

Credit quality of consumer debtors

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

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|-------------------|-------------------|
| 7. Receivables from non-exchange transactions | | |
| Long Term Debtors | 244 122 | 219 686 |
| Outstanding Electricity Collections | 12 894 455 | 11 990 506 |
| Fuel Deposits | 2 484 820 | 4 784 820 |
| Other Receivables | 2 704 303 | 1 711 262 |
| Eskom Account Deposit | 747 501 | 694 021 |
| Statutory receivables - Fines | 539 825 | 350 439 |
| Statutory receivables - Assessment rates | 44 759 190 | 39 158 601 |
| | 64 374 216 | 58 909 335 |
| Non-current assets | 244 122 | 219 686 |
| Current assets | 64 130 094 | 58 689 649 |
| | 64 374 216 | 58 909 335 |
| Assessment rates | | |
| Gross balance | 77 775 517 | 69 342 269 |
| Less: Allowance for impairment | (33 016 327) | (30 183 668) |
| | 44 759 190 | 39 158 601 |
| Total | | |
| Current (0-30 days) | 2 100 613 | 4 594 965 |
| 31 - 60 days | 1 787 667 | 2 603 203 |
| 61 - 90 days | 1 664 034 | 1 769 644 |
| 91 - 120 days | 72 223 203 | 60 374 457 |
| Less: Impairment | (33 016 327) | (30 183 668) |
| | 44 759 190 | 39 158 601 |
| Residential | | |
| Current (0 - 30 days) | 1 527 482 | 2 703 385 |
| 31 - 60 days | 1 386 902 | 1 665 419 |
| 61 - 90 days | 1 332 606 | 1 404 428 |
| 91 - 120 days | 61 307 718 | 54 207 395 |
| Less: Impairment | (25 430 387) | (23 734 215) |
| | 40 124 321 | 36 246 412 |
| Industrial / commercial | | |
| Current (0 - 30 days) | 559 631 | 1 341 496 |
| 31 - 60 days | 387 699 | 450 595 |
| 61 - 90 days | 318 514 | 353 864 |
| 91 - 120 days | 10 788 199 | 6 115 883 |
| Less: Impairment | (7 585 940) | (6 449 453) |
| | 4 468 103 | 1 812 385 |
| National and provincial government | | |
| Current (0 - 30 days) | 13 500 | 550 084 |
| 31 - 60 days | 13 066 | 487 189 |
| 61 - 90 days | 12 914 | 11 352 |
| 91 - 120 days | 127 286 | 51 179 |
| | 166 766 | 1 099 804 |
| Reconciliation of allowance for impairment - Assessment Rates | | |
| Balance at the beginning of the year | (30 183 668) | (27 258 091) |
| Contributions to allowance | (33 016 327) | (30 183 668) |
| Reversal of allowance | 30 183 668 | 27 258 091 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|---------------------|---------------------|
| 7. Receivables from non-exchange transactions (continued) | | |
| | (33 016 327) | (30 183 668) |
| Fines | | |
| Gross balance | 2 714 989 | 1 742 771 |
| Less: Allowance for impairment | (2 175 164) | (1 392 332) |
| | 539 825 | 350 439 |
| Reconciliation of allowance for impairment - Fines | | |
| Balance at the beginning of the year | (1 392 332) | (1 725 773) |
| Contribution to allowance | (2 175 164) | (1 392 332) |
| Reversal of impairment | 1 392 332 | 1 725 773 |
| | (2 175 164) | (1 392 332) |

The calculation in respect of the impairment fines receivable is based on an assessment of the past payment history of fines per category. The total average collectability of fines were 26% (2021: 24%).

The calculation for initial recognition and measurement of fines reduced and or cancelled is based on an assessment of past reduced and or cancelled history of fines per category. The total average estimated reductions used were 10% (2021: 5%).

Non-Current Receivables from non-exchange transactions

| | | |
|-------------------|---------|---------|
| Long Term Debtors | 244 122 | 219 686 |
|-------------------|---------|---------|

8. VAT receivable

| | | |
|----------------|-------------|------------|
| Current assets | 118 332 046 | 89 444 844 |
|----------------|-------------|------------|

The Municipality is registered on the cash basis for VAT purposes. This means that VAT is only paid once cash is received or actual payments are made.

9. Heritage assets

| | 2022 | | | 2021 | | |
|-----------------|------------------|-------------------------------|----------------|------------------|-------------------------------|----------------|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Heritage assets | 7 761 921 | - | 7 761 921 | 7 761 921 | - | 7 761 921 |

Reconciliation of heritage assets 2022

| | | |
|-----------------|------------------------|--------------|
| | Opening balance | Total |
| Heritage assets | 7 761 921 | 7 761 921 |

Reconciliation of heritage assets 2021

| | | |
|-----------------|------------------------|--------------|
| | Opening balance | Total |
| Heritage assets | 7 761 921 | 7 761 921 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

9. Heritage assets (continued)

Heritage assets

The municipality's Heritage Assets comprise of significant historical assets within the Moqhaka Municipality. These are made up of the:

1. Anglo-Boer War Memorial Burial Site,
2. Sports Monument,
3. Mayoral Chains.
4. ZR Mahabane House:

Reconciliation of Heritage Assets

| | Carrying amount 2022 | Carrying amount 2021 |
|--|-------------------------|-------------------------|
| Municipal Jewellery | 1 277 800 | 1 277 800 |
| Areas of land of historic or specific significance | 250 122 | 250 122 |
| Culturally significant buildings | 6 233 999 | 6 233 999 |
| | 7 761 921 | 7 761 921 |

10. Intangible assets

| | 2022 | | | 2021 | | |
|-------------------|---------------------|---|----------------|---------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 6 196 021 | (3 379 464) | 2 816 557 | 5 698 021 | (2 955 706) | 2 742 315 |

Reconciliation of intangible assets - 2022

| | Opening balance | Additions | Amortisation | Total |
|-------------------|--------------------|-----------|--------------|-----------|
| Computer software | 2 742 315 | 498 000 | (423 758) | 2 816 557 |

Reconciliation of intangible assets - 2021

| | Opening balance | Additions | Amortisation | Total |
|-------------------|--------------------|-----------|--------------|-----------|
| Computer software | 2 765 638 | 293 380 | (316 703) | 2 742 315 |

Other information

There were no intangible assets that were assessed as having an indefinite useful life.

There are no intangible assets whose titles are restricted or pledged as security for municipality's liabilities.

There are no contractual commitments for the acquisition of intangible assets.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

11. Investment property

| | 2022 | | | 2021 | | |
|---------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 107 623 327 | - | 107 623 327 | 105 837 439 | - | 105 837 439 |

Reconciliation of investment property - 2022

| | Opening balance | Disposals | Fair value adjustments | Total |
|---------------------|-----------------|-----------|------------------------|-------------|
| Investment property | 105 837 439 | (228 500) | 2 014 388 | 107 623 327 |

Reconciliation of investment property - 2021

| | Opening balance | Fair value adjustments | Total |
|---------------------|-----------------|------------------------|-------------|
| Investment property | 104 727 855 | 1 109 584 | 105 837 439 |

Pledged as security

There are currently no restrictions on Investment Property as they have not being pledged as securities for liabilities.

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

There are no contractual obligations for the acquisition of Investment Property.

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.

Details of valuation

The fair value of the investment property was provided by Elira Property Group registered as a Professional Associated Valuer under subsection (2) of section 22 of (Act 47) of 2000 Property Valuers Profession Bill.

Amounts recognised in surplus and deficit for the year.

| | | |
|---|-----------|-----------|
| Rental revenue from investment property | 5 043 682 | 4 446 431 |
|---|-----------|-----------|

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

12. Property, plant and equipment

| | 2022 | | | 2021 | | |
|--------------------------------|----------------------|---|----------------------|----------------------|---|----------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 45 779 606 | - | 45 779 606 | 45 629 606 | - | 45 629 606 |
| Buildings and Fixtures | 71 207 873 | (30 010 561) | 41 197 312 | 68 682 646 | (28 411 958) | 40 270 688 |
| Plant and machinery | 10 603 210 | (7 061 702) | 3 541 508 | 9 344 097 | (6 457 562) | 2 886 535 |
| Furniture and office equipment | 12 292 712 | (8 220 045) | 4 072 667 | 11 032 977 | (7 681 896) | 3 351 081 |
| Motor vehicles | 56 877 442 | (42 408 074) | 14 469 368 | 57 008 272 | (40 170 830) | 16 837 442 |
| IT equipment | 19 582 215 | (9 999 049) | 9 583 166 | 14 691 203 | (8 710 239) | 5 980 964 |
| Landfill Sites | 17 209 966 | (13 579 592) | 3 630 374 | 15 102 247 | (13 594 379) | 1 507 868 |
| Infrastructure | 4 120 030 038 | (2 488 672 247) | 1 631 357 791 | 4 096 100 151 | (2 380 803 110) | 1 715 297 041 |
| Community | 199 869 446 | (116 078 272) | 83 791 174 | 199 843 433 | (110 803 986) | 89 039 447 |
| Capital work in progress | 105 984 352 | - | 105 984 352 | 67 400 928 | - | 67 400 928 |
| Finance leased assets | 3 689 597 | (349 484) | 3 340 113 | 3 223 497 | (3 044 683) | 178 814 |
| Total | 4 663 126 457 | (2 716 379 026) | 1 946 747 431 | 4 588 059 057 | (2 599 678 643) | 1 988 380 414 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

| | Opening balance | Additions | Disposals | Transfers received | Transfers | Public contributions and donations | Depreciation | Impairment loss | Total |
|--------------------------------|----------------------|-------------------|------------------|--------------------|--------------------|------------------------------------|----------------------|---------------------|----------------------|
| Land | 45 629 606 | 150 000 | - | - | - | - | - | - | 45 779 606 |
| Buildings and Fixtures | 40 270 688 | 2 525 227 | - | - | - | - | (1 598 603) | - | 41 197 312 |
| Plant and machinery | 2 886 535 | 825 555 | (17 315) | - | - | 503 304 | (636 952) | (19 619) | 3 541 508 |
| Furniture and office equipment | 3 351 081 | 1 275 342 | (10 247) | - | - | 2 781 | (525 580) | (20 710) | 4 072 667 |
| Motor vehicles | 16 837 442 | - | (17 109) | - | - | - | (2 219 001) | (131 964) | 14 469 368 |
| IT equipment | 5 980 964 | 4 916 132 | (18 184) | - | - | 10 962 | (1 304 169) | (2 539) | 9 583 166 |
| Landfill Sites | 1 507 868 | - | (56 536) | 2 346 750 | - | - | (167 708) | - | 3 630 374 |
| Infrastructure | 1 715 297 041 | 2 122 041 | (655 902) | 23 344 990 | - | - | (96 084 286) | (12 666 093) | 1 631 357 791 |
| Community | 89 039 447 | 26 066 | - | - | - | - | (5 044 749) | (229 590) | 83 791 174 |
| Capital work in progress | 67 400 928 | 70 243 006 | - | (25 691 740) | (5 647 634) | - | - | (320 208) | 105 984 352 |
| Finance leased assets | 178 814 | 3 639 000 | - | - | - | - | (477 701) | - | 3 340 113 |
| | 1 988 380 414 | 85 722 369 | (775 293) | - | (5 647 634) | 517 047 | (108 058 749) | (13 390 723) | 1 946 747 431 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

12. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

| | Opening balance | Additions | Disposals | Transfers received | Transfers | Public contributions and donations | Depreciation | Impairment loss | Total |
|--------------------------------|----------------------|-------------------|------------------|--------------------|------------------|------------------------------------|----------------------|------------------|----------------------|
| Land | 45 629 606 | - | - | - | - | - | - | - | 45 629 606 |
| Buildings | 41 795 468 | 26 085 | - | - | - | - | (1 550 865) | - | 40 270 688 |
| Plant and machinery | 3 219 724 | 223 966 | (708) | - | - | 69 900 | (592 818) | (33 529) | 2 886 535 |
| Furniture and office equipment | 3 174 542 | 645 286 | (4 583) | - | - | 54 200 | (506 256) | (12 108) | 3 351 081 |
| Motor vehicles | 18 595 599 | - | (64 750) | - | - | 1 445 770 | (3 055 207) | (83 970) | 16 837 442 |
| IT equipment | 3 805 839 | 309 795 | (7 159) | 2 581 319 | - | 286 873 | (981 825) | (13 878) | 5 980 964 |
| Landfill Sites | 1 619 806 | - | - | - | - | - | (111 938) | - | 1 507 868 |
| Infrastructure | 1 776 315 536 | 3 530 662 | (420 738) | 28 966 705 | - | 3 487 352 | (96 582 476) | - | 1 715 297 041 |
| Community | 94 380 795 | 246 364 | - | - | - | - | (5 587 712) | - | 89 039 447 |
| Capital work in progress | 50 342 071 | 49 278 891 | - | (31 548 024) | (672 010) | - | - | - | 67 400 928 |
| Finance leased assets | 1 235 726 | - | - | - | - | - | (1 056 912) | - | 178 814 |
| | 2 040 114 712 | 54 261 049 | (497 938) | - | (672 010) | 5 344 095 | (110 026 009) | (143 485) | 1 988 380 414 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|----------------------|----------------------|
| 12. Property, plant and equipment (continued) | | |
| Capital expenditure | | |
| The municipality currently has the following capital commitments with regards to capital expenditure on infrastructure assets | | |
| Approved and contracted for | 199 590 146 | 193 806 146 |
| The following amounts relates to leased assets held by the entity included in property, plant and equipment | | |
| Office Equipment | 3 359 029 | 175 405 |
| Reconciliation of Work-in-Progress | | |
| Infrastructure | 75 978 120 | 50 529 014 |
| Community | 10 702 001 | 8 671 120 |
| Landfill sites | 18 859 768 | 7 756 330 |
| Administration | 444 463 | 444 464 |
| | 105 984 352 | 67 400 928 |
| Reconciliation of Infrastructure Assets | | |
| Roads and Storm water | 648 580 560 | 666 202 547 |
| Electricity | 347 169 330 | 379 611 338 |
| Water | 367 448 020 | 384 081 957 |
| Sewerage | 268 159 881 | 285 401 198 |
| | 1 631 357 791 | 1 715 297 040 |
| <p>Assets registers contain assets with a carrying value of R0. These are assets which have either been fully impaired or have been disposed in the 2021-21 financial year. The latter are kept in the register for comparison purposes.</p> <p>Construction of 66kV Overhead Ring project in WIP has been delayed due to lack of budget.</p> <p>Fencing of Steynsrus and Matlwangtlwang offices project has been delayed due to the contractor's inability to complete the project during the stipulated timeframe.</p> <p>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.</p> <p>Capital work in progress refers to infrastructure, community assets, ongoing projects and assets which have been paid for and have not been delivered as at 30 June 2022.</p> <p>Construction of the Indoor/Outdoor Sport facility in Koekoe Village has been delayed due to supplier material not yet delivered on site.</p> <p>Construction of 0.608km paving road in Rammulotsi has been delayed due to the contractor's inability to complete the project.</p> | | |
| Infrastructure Impairment Loss | | |
| <p>During the year, Infrastructure sewer assets at the old Kroonstad Sewer Plant, were impaired by a value of R12 666 092.69. These assets were identified as being idle, as per GRAP 21 - .23(b), as the old sewer is currently not in use.</p> | | |
| 13. Consumer deposits | | |
| Electricity | 4 000 717 | 3 389 068 |
| Water | 6 247 499 | 6 058 155 |
| Sundries | 4 165 441 | 3 994 033 |
| | 14 413 657 | 13 441 256 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|-------------------------|-----------------------|
| 14. Finance lease obligation | | |
| Minimum lease payments due | | |
| - within one year | 1 756 320 | 174 996 |
| - in second to fifth year inclusive | 3 073 560 | - |
| | <u>4 829 880</u> | <u>174 996</u> |
| less: future finance charges | (1 470 851) | 109 |
| Present value of minimum lease payments | <u>3 359 029</u> | <u>175 105</u> |
| Present value of minimum lease payments due | | |
| - within one year | 942 792 | 175 105 |
| - in second to fifth year inclusive | 2 416 237 | - |
| | <u>3 359 029</u> | <u>175 105</u> |
| Non-current liabilities | 2 416 237 | - |
| Current liabilities | 942 792 | 175 105 |
| | <u>3 359 029</u> | <u>175 105</u> |

It is municipality policy to lease certain motor vehicles and equipment under finance leases. The average lease term does not exceed 5 years. The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer to note 12.

The lease payments does not escalate per annum in line with the Service Level Agreement that the municipality signed, and no arrangements have been entered into for any contingent rent.

15. Borrowings

At amortised cost

| | | |
|--|------------|------------|
| Annuity loans - Development Bank of South Africa | 24 411 635 | 28 455 459 |
|--|------------|------------|

Non-current liabilities

| | | |
|-------------------|------------|------------|
| At amortised cost | 11 757 098 | 14 166 372 |
|-------------------|------------|------------|

Current liabilities

| | | |
|-------------------|------------|------------|
| At amortised cost | 12 654 537 | 14 289 087 |
|-------------------|------------|------------|

Defaults and breaches

The municipality restructured all loans from the Development Bank of South Africa during 2012. The restructured loan bears interest on the outstanding amount at a fixed rate of 9% while amounts in arrears will bear interest at 11%.

The loan is payable in 60 (sixty) quarterly payments starting on 1 August 2012. The municipality has not defaulted payments in the current year. The municipality was not able to remedy the defaults and terms of the loan was not required to be renegotiated in terms of the restructured loan.

Balance in arrears

| | | |
|----------|--------------------------|--------------------------|
| Capital | 7 613 957 | 7 413 628 |
| Interest | 5 040 580 | 6 875 459 |
| | <u>12 654 537</u> | <u>14 289 087</u> |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

16. Payables from exchange transactions

| | | |
|------------------------------|--------------------|--------------------|
| Trade payables | 903 609 541 | 201 779 037 |
| Payments received in advance | 17 769 326 | 16 438 779 |
| Deposits received | 48 160 | 44 896 |
| Retention creditors | 7 338 146 | 3 277 199 |
| Third Parties | 13 638 866 | 13 683 273 |
| | 942 404 039 | 235 223 184 |

| Trade payables 2022 | 0 - 30 days | 31 - 60 days | 61 - 90 days | > 90 days | Total |
|-------------------------|-------------------|-------------------|------------------|--------------------|--------------------|
| Bulk electricity | 47 979 310 | 62 452 152 | - | 647 573 168 | 758 004 630 |
| Various trade creditors | 12 513 952 | 6 303 767 | 2 240 089 | 124 547 103 | 145 604 911 |
| | 60 493 262 | 68 755 919 | 2 240 089 | 772 120 271 | 903 609 541 |

| Trade payables 2021 | 0 - 30 days | 31 - 60 days | 61 - 90 days | > 90 days | Total |
|-------------------------|-------------------|-------------------|-------------------|--------------------|--------------------|
| Bulk electricity | 28 230 259 | 23 348 219 | 19 125 066 | 41 873 385 | 112 576 929 |
| Auditor General | 52 614 | 54 851 | 3 659 544 | 5 430 095 | 9 197 104 |
| Various trade creditors | 85 341 | 144 751 | 33 326 | 79 741 586 | 80 005 004 |
| | 28 368 214 | 23 547 821 | 22 817 936 | 127 045 066 | 201 779 037 |

Suppliers have not been paid within the prescribed 30 day period due to cash flow constraints.

17. Provisions

Reconciliation of provisions - 2022

| | Opening Balance | Reversed | Interest cost | Change in estimate | Total |
|---------------------------------------|--------------------|------------------|------------------|--------------------|--------------------|
| Funeral death benefit | 67 000 | (9 000) | - | - | 58 000 |
| Rehabilitation cost of landfill sites | 65 257 158 | - | 971 976 | 2 347 416 | 68 576 550 |
| Rehabilitation cost of quarries | 13 120 893 | - | 1 449 859 | (306 420) | 14 264 332 |
| Leave pay | 29 110 450 | (439 361) | - | - | 28 671 089 |
| | 107 555 501 | (448 361) | 2 421 835 | 2 040 996 | 111 569 971 |

Reconciliation of provisions - 2021

| | Opening Balance | Additions | Reversed | Interest cost | Change in estimate | Total |
|---------------------------------------|--------------------|------------------|----------------|------------------|---------------------|--------------------|
| Funeral death benefit | 74 000 | - | (7 000) | - | - | 67 000 |
| Rehabilitation cost of landfill sites | 76 775 482 | - | - | 1 055 241 | (12 573 565) | 65 257 158 |
| Rehabilitation cost of quarries | 12 579 915 | - | - | 660 446 | (119 468) | 13 120 893 |
| Leave pay | 26 566 457 | 2 543 993 | - | - | - | 29 110 450 |
| | 115 995 854 | 2 543 993 | (7 000) | 1 715 687 | (12 693 033) | 107 555 501 |

| | | |
|-------------------------|--------------------|--------------------|
| Non-current liabilities | 111 511 971 | 107 488 501 |
| Current liabilities | 58 000 | 67 000 |
| | 111 569 971 | 107 555 501 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

17. Provisions (continued)

Leave pay

Annual leave accrues to employees on a monthly basis in accordance with the conditions of employment. Employees are entitled to 16 non-vested leave days and 8 vested leave days per annum, accumulated to a maximum of 48 leave days. The provision is an estimate of the amount due to staff as at the financial year-end, based on the value of leave and the estimated leave days to be forfeited.

It is not the municipality's policy to encash leave in the normal course of business, except upon resignation, termination or retirement.

Rehabilitation of landfill sites and quarries

In terms of the Mineral and Petroleum Resources Development Act, 2002 (Act No 28 of 2002), it is required from the municipality to execute the environmental management program to restore the landfill sites and quarries at Kroonstad, Viljoenskroon and Steynsrus.

Funeral Death Benefit

The funeral death benefit scheme was initiated by the Municipality for its employees who were appointed prior to 1996. The scheme is only open to these municipal employees, and payouts are only made to employees who are deceased while in the service of the Municipality. The scheme participants make a monthly contribution of R2.5 and upon death the beneficiary/family receives the R1,000 payout.

Landfill site and Quarries provision

Summary of liability for landfill site costs

| | | |
|-----------------------------|-------------------|-------------------|
| Kroonstad Landfill Site | 37 406 987 | 36 051 295 |
| Steynsrus Landfill Site | 9 203 859 | 9 147 669 |
| Viljoenskroon Landfill Site | 21 965 704 | 20 409 704 |
| Kroonstad gravel quarry | 7 240 988 | 6 990 808 |
| Steynsrus gravel quarry | 7 023 344 | 6 130 085 |
| | 82 840 882 | 78 729 561 |

Key assumptions used:

Assumptions used at the reporting date:

| | For Viljoenskroon landfill | For Steynsrus landfill | For Kroonstad landfill |
|---------------------|---------------------------------------|-----------------------------------|-----------------------------------|
| CPI | 7.24% | 7.24% | 7.24% |
| Discount rates used | 5.250% | 7.435% | 5.250% |
| Net discount rate | 6.15% | 8.34% | 6.15% |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|------------------|-------------------|
| 18. Unspent conditional grants and receipts | | |
| Unspent conditional grants and receipts comprises of: | | |
| Municipal Infrastructure Grant (MIG) | - | 6 082 814 |
| LG Seta grant | 1 764 538 | 1 231 714 |
| Water Services Infrastructure grant (WSIG) | 234 | 12 024 046 |
| Rehabilitation of sewerage network - CoGTA grant | 3 057 378 | - |
| | 4 822 150 | 19 338 574 |
| Non-current liabilities | - | - |
| Current liabilities | 4 822 150 | 19 338 574 |
| | 4 822 150 | 19 338 574 |

See note 30 for the reconciliation of grants from other spheres of government. The amounts are recognised as revenue when the qualifying expenditure is incurred.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

19. Employee benefit obligation

| Reconciliation of Employee benefit obligation - 2022 | Opening Balance | Additions | Interest cost | Benefits paid | Actuarial gain / (loss) | Total |
|--|-------------------|------------------|------------------|--------------------|-------------------------|-------------------|
| Long service awards | 18 112 000 | 1 737 000 | 1 792 000 | (2 454 000) | (208 000) | 18 979 000 |
| Post-retirement Medical Plan | 37 021 000 | - | 3 763 000 | (3 946 878) | 2 822 878 | 39 660 000 |
| 13th Cheque | 6 619 327 | 625 163 | - | - | - | 7 244 490 |
| | 61 752 327 | 2 362 163 | 5 555 000 | (6 400 878) | 2 614 878 | 65 883 490 |

| Reconciliation of Employee benefit obligation -2021 | Opening Balance | Additions | Interest cost | Benefits paid | Actuarial gain / (loss) | Total |
|---|-------------------|------------------|------------------|--------------------|-------------------------|-------------------|
| Long service awards | 18 323 653 | 1 626 990 | 1 232 988 | (4 438 000) | 1 366 369 | 18 112 000 |
| Post Retirement Medical Plan | 38 585 197 | - | 3 612 434 | (4 249 275) | (927 356) | 37 021 000 |
| 13th Cheque | 7 214 125 | (594 798) | - | - | - | 6 619 327 |
| | 64 122 975 | 1 032 192 | 4 845 422 | (8 687 275) | 439 013 | 61 752 327 |

Long service awards

A long-service award is granted to municipal employees after the completion of fixed periods of continuous service with the Municipality. The said award comprises a certain number of vacation leave days which, in accordance with the option exercised by the beneficiary employee, can be converted into a cash amount based on his/her basic salary applicable at the time the award becomes due or, alternatively, credited his/her vacation leave accrual. The provision represents an estimation of the awards to which employees in the service of the Municipality at 30 June 2022.

Key assumptions used:

| | |
|--------------------------------|--|
| Discount rates used | Yield Curve |
| CPI (Consumer Price Inflation) | Difference between nominal and yield curve |
| Salary inflation | Equal to CPI+1 |
| Net discount rate | Yield Curve Base |

The basis on which the discount rate has been determined is as follow:

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 it is assumed that the current policy for awarding long service awards remains unchanged in the future.

Amounts recognised in the statement of financial performance are as follows:

| | | |
|-------------------------|----------------|------------------|
| Current service cost | 1 737 000 | 1 626 990 |
| Interest cost | 1 792 000 | 1 232 988 |
| Actuarial gain / (loss) | (208 000) | 1 366 367 |
| Benefit payments | (2 454 000) | (4 438 000) |
| | 867 000 | (211 655) |

Amounts recognised in the statement of financial position are as follows:

| | | |
|----------------------------|-------------------|-------------------|
| Defined benefit obligation | 18 112 000 | 18 323 655 |
| Movement in provision | 867 000 | (211 655) |
| | 18 979 000 | 18 112 000 |

Post retirement medical aid plan

The Municipality's current active employees and pensioners have the choice of participating in the following medical schemes:

- LA Health Medical Scheme
- Bonitas Medical Scheme;
- Hosmed Medical Scheme
- Samwumed Medical Scheme; and
- Key Health Medical Scheme.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

| | 2022 | 2021 |
|--|------|------|
|--|------|------|

19. Employee benefit obligation (continued)

Carrying value

| | | |
|---|-------------------|-------------------|
| Present value of the defined benefit obligation-wholly unfunded | 37 021 000 | 38 585 197 |
| Current interest cost | 3 763 000 | 3 612 434 |
| Actuarial gains/ (loss) | 2 822 878 | (1 093 037) |
| Benefits payments | (3 946 878) | (4 083 594) |
| | 39 660 000 | 37 021 000 |

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

| | | |
|---|----|----|
| Contributions members (e.g.: Widows, orphans, pensioners) | 61 | 65 |
|---|----|----|

Net expense recognised in the statement of financial performance

| | | |
|--------------------------|------------------|--------------------|
| Interest cost | 3 763 000 | 3 612 434 |
| Actuarial (gains) losses | 2 822 878 | (1 093 038) |
| Benefit payments | (3 946 878) | (4 083 594) |
| | 2 639 000 | (1 564 198) |

Key assumptions used

Assumptions used at the reporting date:

| | |
|------------------------------------|---|
| Discount rate | Yield Curve |
| CPI (Consumer Price Inflation) | Difference between nominal and yield curves |
| Medical Aid Contribution Inflation | CPI+1.5% |
| Net Effective Discount Rate | Yield curve based |

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

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. We assumed that 100% of all active members on medical aid will remain on medical aid once they retire. We also assumed that all active members will remain on the same medical aid option at retirement.

The expected benefit payments over the next annual reporting period is reflected in the table below.

| | |
|-------------------------|-------------------|
| Balance at 30 June 2023 | 39 660 000 |
| Interest cost | 4 461 000 |
| Benefits paid | (3 962 000) |
| | 40 159 000 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|--------------------|--------------------|
| 20. Eskom payment arrangement | | |
| Obligations in Eskom payment arrangement | | |
| Eskom NPV | - | 327 653 727 |
| Reconciliation of Eskom payment arrangement | | |
| Opening balance | 327 653 727 | - |
| Additions during the year | - | 327 653 727 |
| Other changes / movements during the year | (327 653 727) | - |
| | - | 327 653 727 |
| Arrangement debt | | |
| The municipality entered into a payment arrangement with Eskom concerning a portion of their Eskom electricity bulk account. In terms of the payment arrangement, the municipality is required to service the arranged debt over five years, whereby the municipality committed to pay Eskom an additional amount to their monthly electricity bulk account. | | |
| The municipality regrettably defaulted on making all required payments in terms of the payment arrangement, which led to the arrangement debt becoming payable immediately in terms of the arrangement agreement with Eskom. As a consequence of the default, the municipality derecognised the long-term arrangement debt arrangement amount, which led to an increase of the current Eskom debt amount due. | | |
| Total Eskom payment arrangement | | |
| Obligations in Eskom payment arrangement | - | 327 653 727 |
| 21. Interest concession | | |
| The municipality entered into a payment arrangement with Eskom concerning a portion of their Eskom electricity bulk account. In terms of the payment arrangement, the municipality is required to service the arranged debt over five years, whereby the municipality committed to pay Eskom an additional amount to their monthly electricity bulk account. Eskom has agreed to waive the interest on the arrangement Eskom debt, but where the municipality defaulted to make the required arrangement payments, the interest payable will be retrospectively implemented. | | |
| The municipality regrettably defaulted on making all required payments in terms of the payment arrangement, which led to the arrangement debt becoming payable immediately in terms of the arrangement agreement with Eskom. As a consequence of the default, the municipality derecognised the interest concession, as the municipality is now required to pay the arranged Eskom debt with interest. | | |
| Interest concession | - | 115 289 547 |
| 22. Service charges | | |
| Sale of electricity | 343 696 195 | 307 284 596 |
| Sale of water | 120 120 204 | 120 876 594 |
| Solid waste | 37 401 956 | 34 512 838 |
| Waste water | 54 108 597 | 50 213 715 |
| Availability Charges | 706 989 | - |
| | 556 033 941 | 512 887 743 |
| Income foregone | | |
| The income foregone included in the difference service charges relates to discounts given to farmers, discounts given to pensioners and also incentives given to debtors settling their accounts in terms of the debt collection and credit control policy. | | |
| 23. Rental of facilities and equipment | | |
| Facilities and equipment | | |
| Rental of facilities | 5 043 682 | 4 446 431 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|--------------------|-------------------|
| 24. Fees | | |
| Administrative and management fees | 208 378 | 322 238 |
| 25. Interest received | | |
| Interest revenue | | |
| Bank | 1 150 843 | 879 654 |
| Receivables from exchange transactions | 29 890 173 | 24 386 488 |
| | 31 041 016 | 25 266 142 |
| All amounts above included in Investment revenue arises from exchange transactions. | | |
| 26. Other income | | |
| Unclaimed deposits | 497 649 | 370 985 |
| Dividends received | 23 023 | 15 669 |
| Provision for rehabilitation adjustment | 306 420 | 12 693 033 |
| Proceeds from auction | - | 4 031 208 |
| Burial income | 1 650 183 | 2 387 588 |
| Clearance certificates | 302 804 | 293 968 |
| Erven sales | 6 548 206 | 2 174 686 |
| Fire brigade and rescue services | 412 640 | 730 323 |
| Escort fees | 2 874 | 1 342 |
| Special services | 5 387 | 9 570 |
| Sundry income | 2 257 516 | 2 420 100 |
| Insurance claims | 230 046 | 218 852 |
| Building plans and inspection fees | 1 068 731 | 855 723 |
| Connection fees | 2 827 219 | 1 203 891 |
| Discount received | 404 257 | 66 107 |
| Hostel fees | 41 255 | 41 255 |
| Water valuation adjustments | 34 369 | 2 151 |
| Railway siding | 128 935 | 94 297 |
| Administration income | 524 210 | 533 969 |
| | 17 265 724 | 28 144 717 |
| 27. Fair value adjustments | | |
| Investment property (Fair value model) | 2 014 388 | 1 109 584 |
| Investment in shares | 29 594 | 43 076 |
| | 2 043 982 | 1 152 660 |
| 28. Gains on employee benefit obligation | | |
| Long Service Awards - Actuarial gains/(losses) | 925 000 | 1 444 643 |
| Post retirement medical benefit - Actuarial gains/(losses) | (2 822 878) | 927 356 |
| | (1 897 878) | 2 371 999 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|-----------------|------|------|
|-----------------|------|------|

29. Property rates

Rates received

| | | |
|-------------|-------------------|-------------------|
| Residential | 18 893 362 | 25 592 486 |
| Commercial | 33 948 163 | 31 084 481 |
| State | 21 561 230 | 20 158 791 |
| | 74 402 755 | 76 835 758 |

Valuations

| | | |
|---------------|-----------------------|-----------------------|
| Commercial | 6 197 317 314 | 6 196 109 400 |
| Multi-purpose | 185 544 004 | 163 339 000 |
| Municipal | 483 940 203 | 489 980 202 |
| Non-ratable | 242 024 806 | 241 474 805 |
| Residential | 4 694 849 696 | 4 686 399 570 |
| State | 1 160 022 017 | 1 167 932 009 |
| | 12 963 698 040 | 12 945 234 986 |

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

An average rate of R0.021 (2021:R0.022) is applied to property valuations to determine assessment rates.

Rates are levied on a monthly basis. Interest at prime plus 1% per annum (2021: prime plus 1%) is levied on rates outstanding two months after due date. (Excluding national government property rates which is levied on an annual basis).

An application was made with the Department of CoGTA on 17 July 2020 for an extension of the Valuation Roll (01 July 2017 – 30 June 2021) due to the impact of Covid-19, condition of the water supply, solid waste and waste water services, planned extension off the new developments for business & residential developments, replacement of faulty water & electricity meters inclusive of indigents as well of funds needed for improvement of AG's report relating to infrastructure and immovable assets register. Approval was granted on 23 October 2020 by the Head of CoGTA Mr Mokete Victor Duma until June 2024.

Income foregone

The Income foregone included in the different property rates relates to the first R 200 000 of all residential properties that are exempted from paying property rates including, discounts given to farmers, discounts given to pensioners and also incentives given to debtors settling their accounts in terms of the debt collection and credit control policy.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|--------------------|--------------------|
| 30. Government grants and subsidies | | |
| Operating grants | | |
| Equitable share | 230 417 000 | 258 842 000 |
| LG Seta grant | 19 778 | 302 712 |
| Financial Management grant (FMG) | 2 200 000 | 2 000 000 |
| Expanded Public Works Program grant (EPWP) | 1 392 000 | 1 228 000 |
| Housing Development Agency grant | 2 151 484 | - |
| | 236 180 262 | 262 372 712 |
| Capital grants | | |
| Water Services Infrastructure grant (WSIG) | 16 064 812 | 10 433 619 |
| Municipal Infrastructure grant (MIG) | 48 418 814 | 43 228 186 |
| Rehabilitation of sewerage network - DWS grant | 8 134 363 | - |
| Rehabilitation of sewerage network - Cogta grant | 3 442 622 | - |
| Integrated National Electrification grant (INEP) | 1 500 000 | - |
| | 77 560 611 | 53 661 805 |
| | 313 740 873 | 316 034 517 |
| Equitable share | | |
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 220 958 000 | 258 842 000 |
| Conditions met - transferred to revenue | (230 417 000) | (258 842 000) |
| Grant withheld by National Treasury | 9 459 000 | - |
| Unspent grant | - | - |
| <p>This grant is primarily used to subsidise the provision of basic services to indigent households. All registered indigent households receive a monthly subsidy based on the basic service charges for water, electricity, sewerage, refuse, which is funded from the grant. Indigent households also receive 10kl free water and 50kwh free electricity per month.</p> | | |
| Municipal Infrastructure Grant (MIG) | | |
| Balance unspent at beginning of year | 6 082 814 | - |
| Current-year receipts | 42 336 000 | 49 311 000 |
| Conditions met - transferred to revenue | (48 418 814) | (43 228 186) |
| Unspent grant | - | 6 082 814 |
| <p>The grant is used to supplement the municipal capital budgets to eradicate backlogs in municipal infrastructure utilised in providing basic services.</p> | | |
| LG SETA Grant | | |
| Balance unspent at beginning of year | 1 231 714 | 1 190 024 |
| Current-year receipts | 552 602 | 344 402 |
| Conditions met - transferred to revenue | (19 778) | (302 712) |
| Unspent grant | 1 764 538 | 1 231 714 |
| <p>The grant is used for training municipality staff to enhance their skills in their respective positions.</p> | | |
| <p>Conditions still to be met - remain liabilities (see note 18).</p> | | |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|--------------|-------------------|
| 30. Government grants and subsidies (continued) | | |
| Extended Public Works Program Grant | | |
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 1 392 000 | 1 228 000 |
| Conditions met - transferred to revenue | (1 392 000) | (1 228 000) |
| Unspent grant | - | - |
| This grant is used in respect of job creation projects and programmes. | | |
| Water Services Infrastructure Grant | | |
| Balance unspent at beginning of year | 12 024 046 | 6 632 665 |
| Current-year receipts | 13 500 000 | 15 825 000 |
| Conditions met - transferred to revenue | (16 064 812) | (10 433 619) |
| Grant withheld by National Treasury through equitable share | (9 459 000) | - |
| Unspent grant | 234 | 12 024 046 |
| This grant is used for infrastructure development including rehabilitation of key infrastructure assets. | | |
| Conditions still to be met - remain liabilities (see note 18). | | |
| Finance Management Grant | | |
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 2 200 000 | 2 000 000 |
| Conditions met - transferred to revenue | (2 200 000) | (2 000 000) |
| Unspent grant | - | - |
| This grant is to be used to train and appoint intern staff members in the finance department of the municipality. | | |
| Housing Development Agency Grant | | |
| Current-year receipts | 2 151 484 | - |
| Conditions met - transferred to revenue | (2 151 484) | - |
| Unspent grant | - | - |
| The grant is used for the capacitation and support towards a level one accreditation of the housing section. | | |
| Rehabilitation of sewerage network - DWS Grant | | |
| Current-year receipts | 8 134 363 | - |
| Conditions met - transferred to revenue | (8 134 363) | - |
| Unspent grant | - | - |
| This grant is used for rehabilitation of Kroonstad waste water treatment works. | | |
| Integrated National Electrification Program | | |
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 1 500 000 | - |
| Conditions met - transferred to revenue | (1 500 000) | - |
| Unspent grant | - | - |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

30. Government grants and subsidies (continued)

Rehabilitation of sewerage network - CoGTA Grant

| | | |
|---|------------------|----------|
| Current-year receipts | 6 500 000 | - |
| Conditions met - transferred to revenue | (3 442 622) | - |
| | 3 057 378 | - |

This grant is used for rehabilitation of the Kroonstad waste water treatment works.

Conditions still to be met - remain liabilities (see note 18).

31. Public contributions and donations

| | | |
|------------------------------------|---------|-----------|
| Public contributions and donations | 517 047 | 5 344 094 |
|------------------------------------|---------|-----------|

Public contributions and donations received from:

| | | |
|------------------------------------|----------------|------------------|
| Department of Water and Sanitation | - | 69 899 |
| AJ Dieseldiens | 4 000 | - |
| Wanga Power Projects | 6 962 | - |
| Fezile Dabi District Municipality | 503 304 | - |
| Mr Gau | 2 781 | - |
| De Beers | - | 1 445 770 |
| Department of Public Works | - | 3 487 352 |
| Department of Arts & Sports | - | 44 700 |
| Housing Development Agency | - | 286 873 |
| Korone Engineers | - | 9 500 |
| | 517 047 | 5 344 094 |

2021-2022

AJ Dieseldiens donated IT equipment to the value of R 4 000.
Wanga Power Projects donated IT equipment to the value of R 6 962.
Fezile Dabi District Municipality donated machinery and equipment to the value of R 503 304.
Mr. Gau donated furniture and office equipment to the value of R 2 781.

2020-2021

Department of Water and Sanitation donated water tanks to the value of R 69 899.
De Beers Mining Group donated a Water Tanker truck at the value of R 1 445 770.
The Free State Department of Public Works at the value of R 3 487 351.
The Free State Department of Arts and Sports donated pool tables to the value of R 44 700.
The Housing Development Agency donated IT Equipment to the value of R 286 8730.
Korone Engineers donated office furniture to the value of R 9 500.

32. Fines

| | | |
|---------------------------|------------------|------------------|
| Illegal Connections Fines | 127 642 | 234 733 |
| Law Enforcement Fines | 550 339 | 269 287 |
| Municipal Traffic Fines | 2 703 430 | 1 529 170 |
| | 3 381 411 | 2 033 190 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|----------------------|--------------------|
| 33. Revenue | | |
| Service charges | 555 326 952 | 512 887 743 |
| Rental of facilities and equipment | 5 043 682 | 4 446 431 |
| Fees | 208 378 | 322 238 |
| Other income | 17 265 724 | 28 144 717 |
| Interest received | 31 041 016 | 25 266 142 |
| Property rates | 74 402 755 | 76 835 758 |
| Government grants and subsidies | 313 740 873 | 316 034 517 |
| Public contributions and donations | 517 047 | 5 344 094 |
| Fines | 3 381 411 | 2 033 190 |
| Fair value adjustments | 2 043 982 | 1 152 660 |
| Gains on employee benefit obligation | 925 000 | 2 371 999 |
| Service charges (Availability charges) | 706 989 | - |
| | 1 004 603 809 | 974 839 489 |
| The amount included in revenue arising from exchanges of goods or services are as follows: | | |
| Service charges | 555 326 952 | 512 887 743 |
| Rental of facilities and equipment | 5 043 682 | 4 446 431 |
| Fees | 208 378 | 322 238 |
| Other income | 17 265 724 | 28 144 717 |
| Interest received | 31 041 016 | 25 266 142 |
| Fair value adjustments | 2 043 982 | 1 152 660 |
| Gains on employee benefit obligation | 925 000 | 2 371 999 |
| | 611 854 734 | 574 591 930 |
| The amount included in revenue arising from non-exchange transactions is as follows: | | |
| Taxation revenue | | |
| Service charges (Availability charges) | 706 989 | - |
| Property rates | 74 402 755 | 76 835 758 |
| Transfer revenue | | |
| Government grants and subsidies | 313 740 873 | 316 034 517 |
| Public contributions and donations | 517 047 | 5 344 094 |
| Fines | 3 381 411 | 2 033 190 |
| | 392 749 075 | 400 247 559 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|-------------------------------------|--------------------|--------------------|
| 34. Employee related costs | | |
| Basic salary | 196 345 673 | 184 477 368 |
| 13th Cheques | 14 751 248 | 13 789 324 |
| Medical aid - company contributions | 19 624 013 | 18 576 758 |
| UIF | 1 737 197 | 1 480 790 |
| Industrial council levy | 110 675 | 99 167 |
| Leave pay provision charge | 5 470 553 | 6 598 650 |
| Group Life Insurance General | 1 115 237 | 1 279 890 |
| Defined contribution plans | 33 287 003 | 32 029 015 |
| Overtime payments | 31 318 920 | 25 662 871 |
| Long-service awards | 628 955 | 1 962 229 |
| Car allowance | 18 108 639 | 17 547 098 |
| Housing benefits and allowances | 1 582 063 | 1 578 150 |
| Other allowances | 19 814 | 3 309 362 |
| Telephone allowance | 532 898 | 551 250 |
| Standby allowance | 2 821 107 | 2 940 955 |
| | 327 453 995 | 311 882 877 |

The salaries, allowances and benefits of staff disclosed are within the upper limits of the SALGA bargaining council determinations.

Remuneration of Municipal Manager: M.S Mqwathi (Deceased)

| | | |
|----------------------|----------------|------------------|
| Basic Salary | 116 949 | 923 280 |
| Car Allowance | 65 606 | 393 637 |
| Social Contributions | 37 245 | 223 467 |
| Cellphone allowance | 6 000 | 36 000 |
| Leave day payout | 568 740 | - |
| | 794 540 | 1 576 384 |

2021-2022

During the financial year the following Directors acted as Municipal Manager and received an acting allowance , Mr. M. Mthwalo R 76 226.50, Mr. I. Mokgatle R 92 797.47 and Ms. S. Monyaki R 125 882.01.

2020-2021

During the financial year the following Directors acted as Municipal Manager and received an acting allowance , Mr. M. Mthwalo R 6 742.82, Ms. P. Tshabalala R 12 361.84 and Ms. S. Monyaki R 228 249.13.

Remuneration of Chief Financial Officer: T.R Marumo

| | | |
|----------------------|------------------|------------------|
| Basic Salary | 566 052 | 754 736 |
| Car Allowance | 252 403 | 339 534 |
| Social Contributions | 127 866 | 167 330 |
| Cellphone Allowance | 15 300 | 20 400 |
| Leave days payout | 419 633 | - |
| | 1 381 254 | 1 282 000 |

2021-2022

Mr. J. Maswanganyi received an acting allowance as the Acting Chief Financial Officer for the period April - June to the amount of R 39 763.47.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

34. Employee related costs (continued)

Executive Director: Technical Services: L.D Nqwenya (Resigned)

| | | |
|----------------------|----------|----------------|
| Basic Salary | - | 499 133 |
| Car Allowance | - | 79 685 |
| Housing Allowance | - | 42 022 |
| Social Contributions | - | 50 992 |
| Cellphone Allowance | - | 4 000 |
| | <u>-</u> | <u>675 832</u> |

Executive Director: Technical Services: I.S Mokgatle

| | | |
|----------------------|------------------|----------|
| Basic Salary | 817 610 | - |
| Car Allowance | 481 193 | - |
| Social Contributions | 124 | - |
| Cellphone Allowance | 19 304 | - |
| | <u>1 318 231</u> | <u>-</u> |

Executive Director: Corporate Services: M.E Mthwalo

| | | |
|----------------------|------------------|------------------|
| Basic Salary | 642 279 | 754 736 |
| Car Allowance | 249 763 | 334 254 |
| Social Contributions | 127 866 | 170 488 |
| Cellphone Allowance | 15 000 | 12 000 |
| Leave days payout | 445 294 | - |
| | <u>1 480 202</u> | <u>1 271 478</u> |

2021-2022

Mr. R. Odendaal received an acting allowance as the Acting Director Corporate Services for the period April - June to the amount of R 28 656.42.

Executive Director: Community Services: P.H Tshabalala

| | | |
|----------------------|------------------|------------------|
| Basic Salary | 566 052 | 754 736 |
| Car Allowance | 128 083 | 242 729 |
| Social Contributions | 42 093 | 53 719 |
| Housing Allowance | 207 597 | 206 753 |
| Cellphone Allowance | 9 000 | 12 000 |
| Leave days payout | 384 916 | - |
| | <u>1 337 741</u> | <u>1 269 937</u> |

2021-2022

Mr. T. Qhena received an acting allowance as the Acting Director Community Services for the period April - June to the amount of R 29 838.54.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

34. Employee related costs (continued)

Executive Director: LED and Planning: S.J Monyaki

| | | |
|----------------------|------------------|------------------|
| Basic Salary | 691 934 | 754 736 |
| Car Allowance | 252 000 | 336 000 |
| Social Contributions | 93 | - |
| Housing Allowance | 123 945 | 165 373 |
| Cellphone Allowance | 19 696 | 30 000 |
| Leave days payout | 150 947 | - |
| | 1 238 615 | 1 286 109 |

2021-2022

Mr. T. Leie received an acting allowance as the Acting Director LED and Planning services for the period July - December and April - June to the amount of R 60 600.81.

35. Remuneration of councillors

| | | |
|-----------------|-------------------|-------------------|
| Executive Mayor | 914 469 | 862 530 |
| Speaker | 745 136 | 627 046 |
| Council Whip | 699 496 | 714 787 |
| Councillors | 17 126 975 | 17 506 916 |
| | 19 486 076 | 19 711 279 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

35. Remuneration of councillors (continued)

In-kind benefits

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

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor has use of a Council-owned vehicle for official duties.

The Executive Mayor has the use of a Council-owned vehicle for official duties.
The Executive Mayor has one full-time bodyguard and a driver.

The Speaker has one full-time driver.
The Speaker has the use of a Council-owned vehicle for official duties.

Executive Mayor: Cllr M.E Mokatsane

| | | |
|----------------------|----------------|----------|
| Basic Salary | 332 854 | - |
| Car Allowance | 160 847 | - |
| Social Contributions | 61 448 | - |
| Cellphone Allowance | 26 446 | - |
| | 581 595 | - |

Executive Mayor: Cllr M.S Chakane (Terminated)

| | | |
|----------------------|----------------|----------------|
| Basic Salary | 200 094 | 502 342 |
| Car Allowance | 86 605 | 245 959 |
| Social Contributions | 32 576 | 93 704 |
| Cellphone Allowance | 13 600 | 40 800 |
| | 332 875 | 882 805 |

Executive Mayor: Cllr P.J Phooko (Deceased)

| | | |
|----------------------|----------|----------------|
| Basic Salary | - | 108 330 |
| Car Allowance | - | 52 480 |
| Social Contributions | - | 16 288 |
| Cellphone Allowance | - | 11 100 |
| | - | 188 198 |

Speaker: Cllr S.V Khiba

| | | |
|----------------------|----------------|----------------|
| Basic Salary | 427 716 | 421 598 |
| Car Allowance | 195 181 | 198 622 |
| Social Contributions | 78 848 | 79 961 |
| Cellphone Allowance | 43 391 | 44 400 |
| | 745 136 | 744 581 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|----------------|----------------|
| 35. Remuneration of councillors (continued) | | |
| Members of Mayoral Committee (MMC) | | |
| MMC: Council Whip: Cllr M.M Semakale | | |
| Basic Salary | 251 087 | - |
| Car Allowance | 118 601 | - |
| Social Contributions | 49 183 | - |
| Cellphone Allowance | 26 118 | - |
| | 444 989 | - |
| MMC: Council Whip: Cllr S.B Tladi (Terminated) | | |
| Basic Salary | 150 323 | 402 232 |
| Car Allowance | 63 513 | 190 540 |
| Social Contributions | 25 872 | 77 615 |
| Cellphone Allowance | 14 800 | 44 400 |
| | 254 508 | 714 787 |
| MMC: Community and Social Services: Cllr M.A Khotle | | |
| Basic Salary | 244 922 | - |
| Car Allowance | 115 416 | - |
| Social Contributions | 47 866 | - |
| Cellphone Allowance | 28 591 | - |
| | 436 795 | - |
| MMC: Community and Social Services: Cllr V.L Mpondo (Terminated) | | |
| Basic Salary | 150 323 | 402 232 |
| Car Allowance | 63 513 | 190 540 |
| Social Contributions | 25 872 | 77 615 |
| Cellphone Allowance | 14 800 | 44 400 |
| | 254 508 | 714 787 |
| MMC: Public Safety and Transport: Cllr E.P Phamotse | | |
| Basic Salary | 244 922 | - |
| Car Allowance | 115 416 | - |
| Social Contributions | 47 866 | - |
| Cellphone Allowance | 28 591 | - |
| | 436 795 | - |
| MMC: Public Safety and Transport: Cllr Z.S Magadlela (Terminated) | | |
| Basic Salary | 150 323 | 402 232 |
| Car Allowance | 63 513 | 190 540 |
| Social Contributions | 25 872 | 77 615 |
| Cellphone Allowance | 14 800 | 44 400 |
| | 254 508 | 714 787 |
| MMC: Integrated Development Plan: Cllr M.R Lulama | | |
| Basic Salary | 244 922 | - |
| Car Allowance | 115 416 | - |
| Social Contributions | 47 866 | - |
| Cellphone Allowance | 28 591 | - |
| | 436 795 | - |
| MMC: Integrated Development Plan: Cllr S Mokoena (Terminated) | | |
| Basic Salary | 150 323 | 402 232 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|----------------|----------------|
| 35. Remuneration of councillors (continued) | | |
| Car Allowance | 63 513 | 190 540 |
| Social Contributions | 25 872 | 77 615 |
| Cellphone Allowance | 14 800 | 44 400 |
| | 254 508 | 714 787 |
| MMC: Municipal Infrastructure and Technical Services: Cllr B.S Ramathibe | | |
| Basic Salary | 395 244 | 234 635 |
| Car Allowance | 178 929 | 111 148 |
| Social Contributions | 74 130 | 45 275 |
| Cellphone Allowance | 43 391 | 25 901 |
| | 691 694 | 416 959 |
| MMC: Local Economic Development: Cllr R.D Tau | | |
| Basic Salary | 244 922 | - |
| Car Allowance | 115 416 | - |
| Social Contributions | 47 866 | - |
| Cellphone Allowance | 28 591 | - |
| | 436 795 | - |
| MMC: Local Economic Development: Cllr Z.J.C Manefelt (Terminated) | | |
| Basic Salary | 150 323 | 402 232 |
| Car Allowance | 63 513 | 190 540 |
| Social Contributions | 25 872 | 77 615 |
| Cellphone Allowance | 14 800 | 44 400 |
| | 254 508 | 714 787 |
| MMC: Spatial Development and Human Settlement: Cllr M.P Tshabalala | | |
| Basic Salary | 244 922 | - |
| Car Allowance | 115 416 | - |
| Social Contributions | 47 866 | - |
| Cellphone Allowance | 28 591 | - |
| | 436 795 | - |
| MMC: Spatial Development and Human Settlement: Cllr K.L Kokami (Terminated) | | |
| Basic Salary | 150 323 | 402 232 |
| Car Allowance | 63 513 | 190 540 |
| Social Contributions | 25 872 | 77 615 |
| Cellphone Allowance | 14 800 | 44 400 |
| | 254 508 | 714 787 |
| MMC: Policy Development and Monitoring: Cllr M Mbona | | |
| Basic Salary | 244 922 | - |
| Car Allowance | 115 416 | - |
| Social Contributions | 47 866 | - |
| Cellphone Allowance | 28 591 | - |
| | 436 795 | - |
| MMC: Policy Development and Monitoring: Cllr E.R Moletsane (Terminated) | | |
| Basic Salary | 150 323 | 402 232 |
| Car Allowance | 63 513 | 190 540 |
| Social Contributions | 25 782 | 77 615 |
| Cellphone Allowance | 14 800 | 77 400 |
| | 254 418 | 747 787 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|----------------|----------------|
| 35. Remuneration of councillors (continued) | | |
| MMC: Finance, Audit and Risk Management: Cllr T.M Ntsala | | |
| Basic Salary | 244 922 | - |
| Car Allowance | 115 416 | - |
| Social Contribution | 47 866 | - |
| Cellphone Allowance | 28 591 | - |
| | 436 795 | - |
| MMC: Finance, Audit and Risk Management: Cllr B Rooskrans (Terminated) | | |
| Basic Salary | 150 323 | 402 232 |
| Car Allowance | 63 513 | 190 540 |
| Social Contribution | 25 782 | 77 615 |
| Cellphone Allowance | 14 800 | 77 400 |
| | 254 418 | 747 787 |
| MMC: Corporate Support Services: Cllr L.E Ramajoe | | |
| Basic Salary | 252 360 | - |
| Car Allowance | 115 416 | - |
| Social Contributions | 47 866 | - |
| Cellphone Allowance | 28 591 | - |
| | 444 233 | - |
| MMC: Corporate Support Services: Cllr M.S Mahlatsi (Terminated) | | |
| Basic Salary | 150 323 | 234 635 |
| Car Allowance | 63 513 | 111 148 |
| Social Contributions | 25 782 | 45 275 |
| Cellphone Allowance | 14 800 | 25 901 |
| | 254 418 | 416 959 |
| MMC: Corporate Support Services: Cllr MM Green (Terminated) | | |
| Basic Salary | - | 100 558 |
| Car Allowance | - | 47 635 |
| Social Contributions | - | 15 084 |
| Cellphone Allowance | - | 10 200 |
| | - | 173 477 |
| MPAC Chairperson: Cllr A.V Botha | | |
| Basic Salary | 293 203 | - |
| Car Allowance | 92 854 | - |
| Social Contribution | 41 315 | - |
| Cellphone Allowance | 28 591 | - |
| | 455 963 | - |
| MPAC Chairperson: Cllr M.L Pietersen (Terminated) | | |
| Basic Salary | 145 942 | 390 443 |
| Car Allowance | 61 481 | 184 443 |
| Social Contribution | 25 282 | 75 845 |
| Cellphone Allowance | 14 800 | 44 400 |
| | 247 505 | 695 131 |
| Part time Councillors | | |
| Basic Salary | 5 398 286 | 5 426 733 |
| Car Allowance | 2 142 790 | 2 243 763 |
| Social Contribution | 1 297 594 | 1 336 187 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|--------------------|--------------------|
| 35. Remuneration of councillors (continued) | | |
| Cellphone Allowance | 1 351 231 | 1 395 966 |
| | 10 189 901 | 10 402 649 |
| 36. Repairs and maintenance | | |
| Repairs and maintenance | 85 773 289 | 79 475 539 |
| Repairs and maintenance consists of: | | |
| Buildings | 4 602 179 | 2 986 030 |
| Electrical Network | 18 637 402 | 18 207 415 |
| Water and Sewer Network | 45 572 553 | 41 732 031 |
| Fleet | 9 975 529 | 11 047 686 |
| Roads | 4 788 793 | 3 971 462 |
| Other repairs and maintenance | 2 196 831 | 1 530 915 |
| | 85 773 287 | 79 475 539 |
| 37. Depreciation and amortisation | | |
| Property, plant and equipment | 108 058 749 | 110 026 009 |
| Intangible assets | 423 758 | 316 703 |
| | 108 482 507 | 110 342 712 |
| 38. Impairment loss on assets | | |
| Impairments | | |
| Property, plant and equipment | 13 390 723 | 143 485 |
| 39. Finance costs | | |
| Landfill sites and quarries | 2 421 835 | 1 715 687 |
| Late payment of creditors | 60 720 340 | 4 152 061 |
| Annuity loans and finance leases | 2 556 176 | 2 668 815 |
| Employee benefits | 5 555 000 | 4 845 422 |
| Other interest paid | 2 643 672 | 17 985 640 |
| | 73 897 023 | 31 367 625 |
| 40. Debt impairment | | |
| Receivables from exchange transactions | 64 707 902 | 79 096 991 |
| Receivables from non-exchange transactions | 2 175 164 | 1 392 333 |
| | 66 883 066 | 80 489 324 |
| 41. Bulk purchases | | |
| Electricity - Eskom | 336 621 161 | 291 408 322 |
| Water | 26 319 | 34 635 |
| | 336 647 480 | 291 442 957 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|---|-------------------|-------------------|
| 42. Contracted services | | |
| Specialist Services | 45 630 644 | 44 155 685 |
| Other Contractors | 26 010 932 | 9 599 460 |
| | 71 641 576 | 53 755 145 |
| Specialist Services | | |
| Security Services | 43 721 326 | 42 473 126 |
| Maintenance Services | 1 909 318 | 1 682 559 |
| | 45 630 644 | 44 155 685 |
| Other Contractors | | |
| Professional Services | 1 044 695 | 6 750 |
| Electricity Vending Services | 12 682 019 | 2 638 708 |
| Water Chemicals | 5 471 020 | 6 120 775 |
| Other Contracted Services | 6 591 199 | 506 629 |
| Valuation Services | 222 000 | 326 600 |
| | 26 010 933 | 9 599 462 |
| 43. Loss on disposal of assets | | |
| Property, plant and equipment | 775 031 | 497 938 |
| Investment property | 228 500 | - |
| Vacant Sites | 3 167 700 | 52 887 |
| | 4 171 231 | 550 825 |
| 44. General expenses | | |
| Advertising | 627 489 | 874 063 |
| Auditors remuneration | 7 860 825 | 8 767 941 |
| Bank charges | 1 080 903 | 1 585 985 |
| Cleaning | 75 243 | 99 833 |
| Legal services | 3 517 627 | 2 724 787 |
| Consumables stores | 7 731 001 | 15 678 254 |
| Entertainment | 192 984 | 34 642 |
| Lease rentals on operating lease | 9 064 063 | 7 291 964 |
| Insurance | 4 614 403 | 3 652 648 |
| Committee expenses | 125 001 | 72 779 |
| Travel and subsistence | 1 045 703 | 308 047 |
| Funeral expenses | 109 130 | 238 906 |
| Medical expenses | 518 479 | 328 698 |
| Fuel and oil | 7 604 680 | 3 606 839 |
| Postage and courier | 475 697 | 1 286 944 |
| Printing and stationery | 60 875 | 110 939 |
| Protective clothing | 2 798 245 | 1 172 046 |
| Subscriptions and membership fees | 3 202 866 | 3 173 806 |
| Telephone and fax | 1 549 864 | 1 572 989 |
| Provision for rehabilitation adjustment | 2 347 416 | - |
| Commission paid | 16 427 157 | 13 970 112 |
| Workmen's compensation | 1 273 456 | 1 237 150 |
| Licences - other | 4 510 075 | 4 167 709 |
| Licences - vehicles | 712 538 | 907 309 |
| Skills development levy | 2 838 707 | 2 657 532 |
| Other expenses | 8 171 922 | 4 271 144 |
| | 88 536 349 | 79 793 066 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|--------------------|--------------------|
| 45. Auditors' remuneration | | |
| Fees | 7 860 825 | 8 767 941 |
| 46. Cash generated from operations | | |
| Surplus / (deficit) | (194 582 384) | (84 115 345) |
| Adjustments for: | | |
| Depreciation and amortisation | 108 482 507 | 110 342 712 |
| Loss on disposal of assets | 4 171 493 | 550 825 |
| Public contributions and donations | (517 047) | (5 344 095) |
| Discount received | (404 257) | (66 107) |
| Fair value adjustments | (2 043 982) | (1 152 660) |
| Property, plant and equipment | 5 647 634 | 672 010 |
| Finance costs | 73 897 023 | 31 367 625 |
| Impairment loss on assets | 13 390 723 | 143 485 |
| Debt impairment | 66 883 066 | 80 489 324 |
| Gains (Loss) on employee benefit obligation | 1 897 878 | (2 371 999) |
| Provision raised | 1 592 635 | (9 592 875) |
| Prior period adjustments | - | 26 731 985 |
| Receivables from exchange transactions | (29 890 173) | (24 386 488) |
| Changes in working capital: | | |
| Inventories | (10 653 121) | (3 128 545) |
| Receivables from exchange transactions | (84 448 378) | (120 372 695) |
| Other receivables from non-exchange transactions | (10 472 704) | (17 289 129) |
| Unspent conditional grants and receipts | (14 516 424) | 2 868 259 |
| Payables from exchange transactions | 644 221 092 | 94 090 898 |
| Interest concession | (115 289 547) | - |
| Consumer debtors | 972 401 | 419 014 |
| Employee benefit obligation | (3 321 715) | (4 408 227) |
| Eskom payment arrangement | (327 653 727) | - |
| VAT | (28 887 202) | (1 610 253) |
| | 98 475 791 | 73 837 719 |
| 47. Irregular expenditure | | |
| Opening balance | 771 354 551 | 634 190 864 |
| Add: Irregular Expenditure - current year | 120 483 256 | 137 163 687 |
| Closing balance | 891 837 807 | 771 354 551 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

| | 2022 | 2021 |
|--|------|------|
|--|------|------|

47. Irregular expenditure (continued)

Irregular expenditure incurred during the financial year

Irregular expenditure disclosure figure should be added indicating that Irregular expenditure is always calculated inclusive of VAT. The figures disclosed above have been presented in this set of AFS inclusive of VAT.

| | | |
|---|--------------------|--------------------|
| Deviations | 157 378 | 184 394 |
| Incorrect awarding of BBEEE points ((25% subcontracting) | 1 166 005 | 9 430 263 |
| Local content instruction notes were not followed | 12 530 624 | 17 689 508 |
| Municipal rates and lease agreements not in order | - | 6 813 682 |
| Non-compliance with the PPPFA Act and Section 112 of the MFMA for the use of panels | 36 045 756 | 44 084 708 |
| Other irregular expenditure non-compliances | - | 3 252 255 |
| Tax clearance not obtained | 886 758 | 2 483 134 |
| Tender documents did not include the requirements for mandatory subcontracting | 35 816 730 | 42 163 648 |
| Tender were not advertised for required number of days | 7 587 926 | 10 998 181 |
| SCM competitive bidding process was not followed to re-appoint contractor | 2 423 395 | - |
| Objective test not stipulated in the bid documentation | 22 301 041 | - |
| Three written quotations not invited | 1 567 643 | 63 914 |
| | 120 483 256 | 137 163 687 |

48. Fruitless and wasteful expenditure

| | | |
|---|-------------------|-------------------|
| Opening balance | 28 836 224 | 35 364 172 |
| Add: Fruitless and wasteful expenditure - current | 29 686 263 | 5 386 711 |
| Add: Fruitless and wasteful expenditure identified - prior period | 108 249 | - |
| Less: Amount written off - current | - | (11 914 659) |
| Closing balance | 58 630 736 | 28 836 224 |

Details of fruitless and wasteful expenditure

| | | |
|--|-------------------|------------------|
| Interest and penalties | 19 428 044 | 5 386 711 |
| Arbitration awards | 108 249 | - |
| Refurbishment of the Kroonstad Waste Water Treatment Works | 10 258 219 | - |
| | 29 794 512 | 5 386 711 |

49. Unauthorised expenditure

| | | |
|--|--------------------|--------------------|
| Opening balance | 347 616 301 | 270 922 434 |
| Add: Unauthorised expenditure - current year | 103 156 372 | 76 693 867 |
| Add: Unauthorised expenditure - prior period | 1 000 000 | - |
| Closing balance | 451 772 673 | 347 616 301 |

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

| | | |
|----------|--------------------|-------------------|
| Non-cash | 103 156 372 | 74 321 823 |
| Cash | - | 2 372 044 |
| | 103 156 372 | 76 693 867 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

49. Unauthorised expenditure (continued)

Unauthorised Expenditure per Department

| | | |
|--------------------|--------------------|-------------------|
| Financial Services | 53 753 185 | - |
| Municipal Manager | - | 2 387 735 |
| Corporate Services | - | 2 147 511 |
| Council | 8 443 503 | - |
| Technical Services | 40 959 684 | 72 158 621 |
| | 103 156 372 | 76 693 867 |

Analysed as follows: Non-cash

| | | |
|---|--------------------|-------------------|
| Depreciation and amortisation | 40 959 684 | 74 321 823 |
| Finance charges (e.g. interest charge on the Eskom account) | 53 753 185 | - |
| Impairment loss on assets | 8 443 503 | - |
| | 103 156 372 | 74 321 823 |

50. Deviation from Supply Chain Management Regulations

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

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

During the financial year there were instances where goods and services were procured and deviated from the normal supply chain management policy.

The reason for these deviations were documented and reported to the accounting officer who considered them and approved the deviation from the normal Supply Chain Management Regulations.

| Description | Number of | Deviations |
|---------------|------------|------------------|
| | Deviations | 2022 |
| Emergency | 8 | 2 336 613 |
| Sole Supplier | 19 | 517 996 |
| Urgent | 49 | 3 434 716 |
| | 76 | 6 289 325 |

| Description | Number of | Deviations |
|---------------|------------|------------------|
| | Deviations | 2021 |
| Emergency | 1 | 10 580 |
| Sole Supplier | 24 | 715 852 |
| Urgent | 45 | 5 885 452 |
| | 70 | 6 611 884 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

51. 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

2021

| | Note | As previously reported | Correction of error | Statement of financial performance | Re-classification | Restated |
|--|------|------------------------|---------------------|------------------------------------|---------------------|----------------------|
| Vat receivable | 8 | 94 809 652 | (5 364 808) | - | - | 89 444 844 |
| Receivables from non-exchange transactions | 7 | 63 678 864 | 6 386 280 | - | (11 155 809) | 58 909 335 |
| Receivables from exchange transactions | 6 | 335 512 025 | - | - | 11 155 809 | 346 667 834 |
| Property, plant and equipment | 12 | 1 993 617 609 | (5 237 195) | - | - | 1 988 380 414 |
| Payables from exchange transactions | 16 | (652 537 592) | (11 674 434) | - | 428 988 842 | (235 223 184) |
| Provisions | 17 | (107 907 011) | 351 510 | - | - | (107 555 501) |
| Unspent conditional grants and receipts | 18 | (10 690 946) | (8 647 628) | - | - | (19 338 574) |
| Employee benefit obligations | 19 | (62 399 827) | 647 500 | - | - | (61 752 327) |
| Eskom payment arrangement | 20 | - | - | - | (327 653 727) | (327 653 727) |
| Interest concession | 21 | - | - | - | (115 289 547) | (115 289 547) |
| Accumulated surplus | | (1 852 148 140) | 5 692 612 | 31 800 594 | - | (1 814 654 934) |
| | | (198 065 366) | (17 846 163) | 31 800 594 | (13 954 432) | (198 065 367) |

Statement of financial performance

2021

| | Note | As previously reported | Correction of error | Re-classification | Restated |
|---------------------------------------|------|------------------------|---------------------|-------------------|--------------------|
| Other income | 26 | (24 790 060) | (351 510) | (3 003 147) | (28 144 717) |
| Gains on employee benefit obligations | 28 | (6 621 274) | 4 249 275 | - | (2 371 999) |
| Government grants and subsidies | 30 | (324 682 143) | 8 647 626 | - | (316 034 517) |
| Employee related costs | 34 | 311 566 105 | 316 772 | - | 311 882 877 |
| Repairs and maintenance | 36 | 76 665 556 | 2 809 983 | - | 79 475 539 |
| General expenditure | 44 | 77 911 222 | 1 974 771 | (92 927) | 79 793 066 |
| Contracted services | 42 | 53 253 460 | 199 245 | 302 440 | 53 755 145 |
| Finance costs | 39 | 13 381 985 | - | 17 985 640 | 31 367 625 |
| Grants and subsidies paid | | 1 237 574 | - | (1 237 574) | - |
| | | 177 922 425 | 17 846 162 | 13 954 432 | 209 723 019 |

Errors

A number of prior period errors were corrected during the year ending 30 June 2022. The details of the retrospective prior period errors adjusted are reflected below.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

51. Contingencies (continued)

The following prior period errors adjustments occurred:

Receivables from non-exchange transactions, Property, plant and equipment

An advance payment was incorrectly classified against Property, plant and equipment. The final set of corrections were not accepted by the Auditor General as it did not include the VAT and conditional grants correction. The correction had to be reversed resulting in the increase of Property, plant and equipment the amount of R 2 230 272, and the decrease of Receivables from non-exchange transactions to the amount of (R 2 230 272).

VAT receivables, Receivables from non-exchange transactions, Property, plant and equipment, Unspent conditional grants and receipts, Government grants and subsidies

An advance payment made from the Municipal Infrastructure Grant was incorrectly classified to Property, plant and equipment. A correction was done accordingly resulting in the increase of Receivables from non-exchange transactions to the amount of R 6 082 814, the decrease of Property, plant and equipment to the amount (R 5 289 403), the decrease of VAT receivables to the amount of (R 793 411), the decrease of Government grants and subsidies to the amount of R 6 082 814, and the increase of Unspent conditional grants and receipts to the amount of (R 6 082 814).

VAT receivables, Receivables from non-exchange transactions, Property, plant and equipment, Unspent conditional grants and receipts, Government grants and subsidies

An advance payment made from the Water Services Infrastructure Grant was incorrectly classified to Property, plant and equipment. A correction was done accordingly resulting in the increase of Receivables from non-exchange transactions to the amount of R 2 564 812, the decrease of Property, plant and equipment to the amount (R 2 230 272), the decrease of VAT receivables to the amount of (R 334 541), the decrease of Government grants and subsidies to the amount of R 2 564 812, and the increase of Unspent conditional grants and receipts to the amount of (R 2 564 812).

VAT receivables , Accumulated surplus

An unknown balance roll forwarded since 2018. A correction was done accordingly resulting in the decrease of VAT receivables to the amount of (R 2 855 209) and the increase of Accumulated surplus to the amount of R 2 855 209.

Employee benefit obligations, Employee related costs

The bonus accrual for the prior year was overstated. A correction was done accordingly resulting in the decrease of Employee benefit obligations the amount of R 647 501 and the decrease of Employee related costs to the amount of (R 647 501).

Payables from exchange transactions, Contracted services, General expenditure, Repairs and maintenance

Payables from exchange transactions were understated in the prior year. A correction was done accordingly resulting in the increase of Payables from exchange transactions to the amount of (R 3 227 935), the increase Contracted services to the amount of R 199 244, the increase General expenditure to the amount of R 1 953 646, and the increase of Repairs and maintenance to the amount of R 1 075 045.

Receivables from non-exchange transactions, General expenditure

Insurance were wrongly allocated in the prior year. A correction was done accordingly resulting in the decrease of Receivables from non-exchange transactions to the amount of (R 21 126) and the increase of General expenditure to the amount of R 21 126.

Payables from exchange transactions, Repairs and maintenance

Payables from exchange transactions were understated in the prior year. A correction was done accordingly resulting in the increase of Payables from exchange transactions to the amount of (R 1 507 246) and the increase of Repairs and maintenance to the amount of R 1 507 246.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

51. Contingencies (continued)

VAT receivables, Payables from exchange transactions

VAT was overstated in the prior year. A correction was done accordingly resulting in the decrease of VAT receivables to the amount of (R 1 381 648) and the decrease of Payables from exchange transactions the amount of R 1 381 648.

Payables from exchange transactions, Property, plant and equipment

Retentions was not recognised in the prior year. A correction was done accordingly resulting in the increase of Payables from exchange transactions to the amount of (R 220 806) and the increase of Property, plant and equipment to the amount of R 220 806.

Accumulated surplus, Property, plant and equipment

There was an error on the Steynsrus Fencing Project. A correction was done accordingly resulting in the decrease of Property, plant and equipment to the amount of (R 121 499) and the increase of Accumulated surplus to the amount of R 121 499.

Accumulated surplus, Property, plant and equipment

There was an error on the Sewer Treatment Project. A correction was done accordingly resulting in the decrease of Property, plant and equipment to the amount of (R 47 289) and the increase of Accumulated surplus to the amount of R 47 289.

Provisions, Other income

There was an error on the Quarry provision. A correction was done accordingly resulting in the decrease of Provisions to the amount of R 351 510 and the increase of Other income to the amount of (R 351 510).

Gains on employee benefit obligation, Payables from exchange transactions

Payments for medical aid for pensioners were not recognised. A correction was done accordingly resulting in the decrease of Gains on employee benefit obligation to the amount of R 4 249 275 and the increase of Payables from exchange transactions the amount of (R 4 249 275).

Employee related costs, Payables from exchange transactions

Wages paid to temporary staff were not recognised. A correction was done accordingly resulting in the increase of Employee related costs to the amount of R 964 2725 and the increase of Payables from exchange transactions the amount of (R 964 272).

Payables from exchange transactions, Repairs and maintenance

Payables from exchange transactions were understated in the prior year. A correction was done accordingly resulting in the increase of Payables from exchange transactions to the amount of (R 227 692) and the increase of Repairs and maintenance to the amount of R 227 692.

Payables from exchange transactions, Accumulated surplus

Third party payments were understated in the prior year. A correction was done accordingly resulting in the increase of Payables from exchange transactions to the amount of (R 1 250 909) and the increase of Accumulated surplus to the amount of R 1 250 90.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

51. Contingencies (continued)

Reclassifications

The following reclassifications adjustment occurred:

Payables from exchange transactions, Eskom payment arrangement, Other income , Finance cost, Interest concession

The Eskom payment arrangement were incorrectly classified to Payables from exchange transactions. A correction was done that resulted in the decrease of Payables from exchange transactions to the amount of R 428 988 842, the increase in Eskom payment arrangement to the amount of (R 327 653 727), the increase of Other income to the amount of (R 4 03 1208), the increase of Interest concession to the amount of (R 115 289 547) and the increase of Finance cost to the amount of R 17 985 640.

Receivables form exchange transactions, Receivables form non exchange transactions

Prepayments were incorrectly classified to Receivables form non exchange transactions. A correction was done that resulted in the decrease of Receivables from non-exchange transactions to the amount of (R 11 155 809) and the increase in Receivables form exchange transactions to the amount of R 11 155 809.

Grants and subsidies paid, Contracted services, General expenditure

The FMG grant were incorrectly disclosed as a seperate line item. A correction was done that resulted in the decrease of Grants and subsidies paid to the amount of (R 1 237 574), the increase in Contracted services to the amount of R 302 440 and the increase of General expenditure to the amount of R 935 134.

General expenditure, Other income

Inventory losses were incorrectly disclosed under other income. A correction was done that resulted in the decrease of Other income to the amount of R 1 028 061 and the decrease of General expenditure to the amount of (R 1 028 601).

Disclosure notes

Capital commitments.

The capital commitments were overstated with disbursements paid to the engineers and retention included at incorrect amounts. A correction was done accordingly that resulted in a decrease of capital commitments to the amount of (R8 216 694).

Other commitments

Other commitments were incorrectly included in the annual financial statements. A correction was done accordingly that resulted in a decrease of other commitments to the amount of (R41 616 026).

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|--|--------------------|--------------------|
| 52. Commitments | | |
| Capital commitments | | |
| Approved and contracted for: | | |
| • Infrastructure | 199 590 146 | 193 806 146 |
| Approved and not contracted for: | | |
| • Infrastructure | 18 818 218 | 40 581 154 |
| Total capital commitments | | |
| Approved and contracted for | 199 590 146 | 193 806 146 |
| Approved and not contracted for | 18 818 218 | 40 581 154 |
| | 218 408 364 | 234 387 300 |
| Total commitments | | |
| Total commitments | | |
| Authorised capital expenditure | 218 408 364 | 234 387 300 |
| Infrastructure commitments approved and contracted for will be funded by grants from government. | | |
| 53. Additional disclosure in terms of Municipal Finance Management Act | | |
| Contributions to organised local government - SALGA | | |
| Opening balance | 25 100 | 221 940 |
| Current year fee | 3 156 303 | 2 924 300 |
| Amount paid - current year | (3 149 098) | (3 121 140) |
| | 32 305 | 25 100 |
| Audit fees | | |
| Opening balance | 9 197 104 | 9 987 376 |
| Current year fee | 5 223 865 | 10 028 281 |
| Interest charged | 11 546 | 517 228 |
| Amount paid - current year | (6 789 343) | (1 348 405) |
| Amount paid - previous years | (9 197 104) | (9 987 376) |
| | (1 553 932) | 9 197 104 |
| PAYE and UIF | | |
| Opening balance | 3 705 637 | 3 508 684 |
| Current year payroll deductions | 50 886 201 | 47 258 467 |
| Amount paid - current year | (50 996 255) | (47 061 514) |
| | 3 595 583 | 3 705 637 |
| Pension and Medical Aid Deductions | | |
| Opening balance | 6 755 165 | 6 391 246 |
| Current payroll deductions | 82 961 509 | 80 482 383 |
| Amount paid - current year | (82 686 132) | (80 118 464) |
| | 7 030 542 | 6 755 165 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|-----------------|------|------|
|-----------------|------|------|

53. Eskom payment arrangement (continued)

Skills Development Levy

| | | |
|----------------------------|----------------|----------------|
| Opening balance | 214 838 | 205 753 |
| Current payroll deductions | 2 839 070 | 2 656 793 |
| Amount paid - current year | (2 816 361) | (2 647 708) |
| | 237 547 | 214 838 |

Distribution losses

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

Technical losses 4% (2021: 4%).

Non-Technical losses 12.24% (2021: 3.09%).

| | | |
|---|-------------------|-------------------|
| Estimated line losses | 18 657 181 | 16 442 839 |
| Losses due to faulty meters, tampering or theft | 57 048 353 | 12 712 404 |
| | 75 705 534 | 29 155 243 |

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

Water losses 71.10% (2021: 46%).

| | | |
|------------------------|------------|------------|
| Estimated water losses | 42 387 110 | 21 673 734 |
|------------------------|------------|------------|

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand 2022 2021

53. Eskom payment arrangement (continued)

Councillors' arrear consumer accounts

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

| 30 June 2022 | Outstanding more than 90 days |
|-------------------------|--|
| Mosolodi (Nzunga ND) SL | 16 325 |
| Botha RA | 2 329 |
| Khiba MJ | 20 378 |
| Khotle MI | 20 995 |
| Klaas TL | 24 987 |
| Lebone B | 11 312 |
| Maleeme ML | 48 121 |
| Marapo BB&MM | 6 468 |
| Mbona NK | 6 867 |
| Meko MJ | 94 691 |
| Mnqonyama E | 55 778 |
| Mofokeng MC | 42 230 |
| Mokatsane ELM | 89 667 |
| Mokoena NM | 51 042 |
| Morake ME | 83 093 |
| Mosiua TD&S | 23 685 |
| Nolo MM | 17 711 |
| Ntsala SN | 57 684 |
| Papashane TJ | 10 576 |
| Phamotse MI | 102 570 |
| Ramajoe MS | 2 230 |
| Ramoola MW | 2 315 |
| Rankokosane BN | 3 019 |
| Saaiman CJ | 47 533 |
| Sekheja L | 57 622 |
| Serapela MS&ML | 109 924 |
| Thebe EM | 25 997 |
| Tshabalala S | 61 382 |
| Tsobo NE | 10 311 |
| Visagie AJ | 37 017 |
| Motsoeneng DM&NL | 12 300 |
| | 1 156 159 |

| 30 June 2021 | Outstanding more than 90 days |
|----------------------------|--|
| Mareka Justice (Deceased) | 32 837 |
| Moloi (CLR Khunyeli JM) MP | 2 875 |
| Khasoli MM(D) | 1 377 |
| Geldenhuis J | 2 569 |
| Mpondo EM | 3 673 |
| Mofokeng ST(TA) | 33 310 |
| Mokoena S | 18 194 |
| Mntuze C | 11 060 |
| Mokotedi (Mokotedi MV) MI | 6 564 |
| Ramathibe MS | 9 687 |
| Mosolodi (Nzunga ND) SL | 17 871 |
| | 140 017 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|-----------------|------|------|
|-----------------|------|------|

53. Eskom payment arrangement (continued)

Non-compliance with the Municipal Finance Management Act

During the current financial year the following non-compliance issues were identified

Supply chain management regulations 12(1)(c) & (d) 17(1)(a) - (c)

Goods and services of a transaction value between R10,000 and R200,000 were procured without inviting at least three written price quotations from accredited prospective providers.

Deviations from competitive bidding were approved on the basis of it being an emergency, urgency or sole supplier.

Municipal Finance Management Act section 116(2)(b), (c)

The performances of all contractors were not monitored on a monthly basis

Municipal Finance Management Act section 65 (e)

Creditors were not paid in 30 days as required by the Act

Municipal Finance Management Act section 52(d)

The budget implementation and state of financial affairs submission was not in accordance with the prescribed time frame.

54. Going concern

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

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated surplus (deficit) of R 1 620 072 542 and that the municipality's total assets exceed its liabilities by R 1 620 072 542.

The municipality incurred a deficit for the current financial year of R 194 582 384 and R 84 115 345 in the previous financial year.

The current liabilities amounting to R 982 539 665 exceeds current assets of R 719 330 707 by R 263 208 958.

The receivables from exchange transactions increased from R 929 908 598 to R 1 053 751 644, which resulted in a 13% increase as at 30 June 2022. The impairment provision also increased from R 584 769 588 to R 656 751 410 (12% increase) as at 30 June 2022.

The payables from exchange transactions increased from R 235 223 184 to R 942 404 039 which results in a 300% increase. This is as a result of the Eskom arrangement which has been separately disclosed in the Statement of Financial Position as at 30 June 2021. The creditors' payment period also increased from 146 days to 542 days as at 30 June 2022. The payables from exchange transactions outstanding for a period longer than 30 days amounted to R 843 116 279 (93%).

The cash equivalents amounted to R 41 563 356 as 30 June 2022 (2021: R 32 729 244).

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.

Despite the material uncertainties which cast a significant doubt on the municipality's ability to continue as a going concern, the municipality will continue to have the power to levy rates in the following financial period. The municipality is also likely to receive continued government funding, as has been disclosed in the Division of Revenue Act of 2022, as there are no current indications that government funding will be withheld from the municipality for any reason.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

55. Financial instruments disclosure

Categories of financial instruments

2022

Financial assets

| | At fair value | At amortised cost | At cost | Total |
|--|----------------|----------------------|-------------------|--------------------|
| Receivables from exchange transactions | - | 399 131 142 | - | 399 131 142 |
| Receivables from non-exchange transactions | - | 64 374 216 | - | 64 374 216 |
| Cash and cash equivalents | - | - | 41 563 356 | 41 563 356 |
| Investments | 393 566 | - | - | 393 566 |
| | 393 566 | 463 505 358 | 41 563 356 | 505 462 280 |

Financial liabilities

| | At amortised cost | At cost | Total |
|---|----------------------|--------------------|----------------------|
| Consumer deposit | 14 413 657 | - | 14 413 657 |
| Finance lease obligation | 3 359 029 | - | 3 359 029 |
| Provisions | 111 569 971 | - | 111 569 971 |
| Borrowings | - | 24 411 635 | 24 411 635 |
| Payables form exchange transactions | - | 942 404 039 | 942 404 039 |
| Unspent conditional grants and receipts | 4 822 150 | - | 4 822 150 |
| | 134 164 807 | 966 815 674 | 1 100 980 481 |

2021

Financial assets

| | At fair value | At amortised cost | At cost | Total |
|--|----------------|----------------------|-------------------|--------------------|
| Receivables from exchange transactions | - | 346 667 834 | - | 346 667 834 |
| Receivables from non-exchange transactions | - | 58 909 335 | - | 58 909 335 |
| Cash and cash equivalents | - | - | 32 729 244 | 32 729 244 |
| Investments | 358 738 | - | - | 358 738 |
| | 358 738 | 405 577 169 | 32 729 244 | 438 665 151 |

Financial liabilities

| | At amortised cost | At cost | Total |
|---|----------------------|--------------------|--------------------|
| Consumer deposit | 13 441 256 | - | 13 441 256 |
| Finance lease obligation | 175 105 | - | 175 105 |
| Provisions | 107 555 501 | - | 107 555 501 |
| Borrowings | - | 28 455 459 | 28 455 459 |
| Payables form exchange transactions | - | 235 223 184 | 235 223 184 |
| Unspent conditional grants and receipts | 19 338 574 | - | 19 338 574 |
| Eskom payment arrangement | 327 653 727 | - | 327 653 727 |
| Interest concession | 115 289 547 | - | 115 289 547 |
| | 583 453 710 | 263 678 643 | 847 132 353 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|-----------------|------|------|
|-----------------|------|------|

56. Subsequent Events

The municipality held an auction on the 24 August 2022. The purpose of which was to dispose of assets and scrap material which was no longer in use. The auction was conducted by Auction24.

57. Contingencies

Contingent liabilities - pending claims

The municipality is a defendant against various claims against the council. All the claims are being contested based on legal advice.

The certainty and the timing of the outflow of these liabilities are uncertain. The amounts disclosed below are possible outflow amounts.

Contingent liabilities

| | | |
|--|-------------------|------------------|
| Claims by individuals due to damage of property in various incidents | 21 822 091 | 2 521 866 |
| Claims from suppliers - contractual disputes | 11 798 254 | 7 349 596 |
| | 33 620 345 | 9 871 462 |

Contingent assets

The municipality is a claimant against the Insure Guardrisk .The claims are being contested based on legal advice.

The certainty and the timing of the inflow of these assets are uncertain. The amounts disclosed below are possible inflow amounts.

Contingent assets

| | | |
|------------------------------------|------------|------------|
| Claims against Guardrisk Insurance | 36 053 580 | 36 053 580 |
|------------------------------------|------------|------------|

58. Budget differences

Material differences between budget and actual amounts

Refer to the Statement of Comparison of Budget and Actual Amounts in the annual financial statements for an analysis of budget versus the actual amounts.

Changes from the approved budget to the final budget

The changes between the approved and final budget are a consequence of reallocations within the approved budget parameters. For details on these changes please refer to Appendix E to the annual financial statements.

The changes between the approved and final budget are a consequence of changes in the overall budget parameters. For details on these changes please refer to Appendix E to the annual financial statements.

59. Related parties

Key management information

| | |
|---------------------|----|
| Executive Mayor | 1 |
| Councillors | 44 |
| Municipal Manager | 0 |
| Section 57 Managers | 1 |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

60. Risk management

Capital risk management

The municipality's objectives when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for member and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the municipality consists of debt, which includes the borrowings disclosed in notes 15, cash and cash equivalents disclosed in note 3, and accumulated surplus as disclosed in the statement of financial position.

There have been no changes to what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements from the previous year.

Liquidity risk

Liquidity risk that the municipality will encounter difficulty in the meeting the obligations associated with the financial liabilities that are settled by delivering cash or another financial asset.

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

The municipality's risk to liquidity is a result of funds not being available to cover future commitments.

The municipality's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the entity's reputation.

The municipality manages liquidity risk through proper management of working capital, ongoing review of future commitments, capital expenditure and actual versus forecast cash flows.

Financial Liabilities

| | 2022 | 2021 |
|-------------------------------------|-------------|-------------|
| Payables form exchange transactions | 942 404 039 | 235 223 184 |
| Finance lease | 3 359 029 | 175 105 |
| DBSA Loans | 24 411 635 | 28 455 459 |
| Eskom payment arrangement | - | 327 653 727 |
| Interest concession | - | 115 289 547 |

The municipality is in arrears with servicing of the Eskom debt. The municipality entered into a repayment arrangement to repay the outstanding debt. Due to cash flow constraints, it has been a challenge for the municipality to keep up with the Eskom payments which can lead to the repayment plan lapsing due to non-payment.

The municipality defaulted on its DBSA loan agreement in the current financial year. The DBSA loan carries fixed interest rate at 9% per annum. In mitigating the risk of non-payment, the municipality did hold bilaterals with DBSA regarding the loan account and a debit order was signed to ensure that the loan repayments are honored on a monthly basis, which also takes into account the arrear loan repayment so as to ensure that the loan is paid up by the redemption date.

Credit risk

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

60. Risk management (continued)

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality. The municipality has a sound credit control and debt collection policy and obtains sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The municipality uses its own trading records to assess its major customers. The municipality's exposure of its counterparties is monitored regularly.

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

Credit risk relating to trade receivables is managed in accordance with the municipalities' credit control and debt collection policy. The municipality has a credit risk policy in place and the exposure to credit risk is monitored on an ongoing basis. The municipality is compelled in terms of its constitutional mandate to provide all its residents with basic minimum services without recourse to an assessment of creditworthiness. Subsequently, the municipality has no control over the approval of new customers who acquire properties in the designated municipal area and consequently incur debt for rates, water and electricity services rendered to them.

The municipality credit exposure is spread over a large number and wide variety of consumers and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad earned doubtful debt. Additional information relating to the analysis of consumer debtors is given in note 6 to the annual financial statements.

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

| Financial instrument | 2022 | 2021 |
|--|-------------|-------------|
| Cash and cash equivalents | 41 563 356 | 32 729 244 |
| Investments | 393 566 | 358 738 |
| Receivables from exchange transactions | 399 131 142 | 346 667 834 |
| Receivables from non-exchange transactions | 64 374 216 | 58 909 335 |

61. Segment information

General information

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

2022

2021

61. Segment information (continued)

Identification of segments

The municipality is organised into six functional directorates for management purposes. The directorates are Municipal Manager, Finance, Corporate Services, Community and Social Services, Technical Services, and Local Economic Development and Planning Services.

Only the Community and Social Services, Technical Services, and Local Economic Development and Planning Services directorates 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.

The Municipal Manager, Finance, Corporate Services directorates are the governance and administration units of the municipality. However, they are not reportable segments; their results are reported as non-reportable segments to reconcile the results of the reportable segments to the total revenue and expenses of the municipality for the year under review.

The three reportable segments comprise of:

- Community and social services, which include sport and recreation, public safety, refuse removal, street cleaning and cemeteries;
- Technical services which include energy sources, water management, and wastewater management; and
- Local economic development and planning services, which include planning and development, housing, and the Kroonpark resort.

Management does not monitor financial performance geographically and does not have reliable separate financial information.

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

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

Aggregated segments

The municipality operates throughout the Gauteng Province in ten cities. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout Gauteng 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 |
|--------------------|--|
| Segment 1 | Local economic development and planning services |
| Segment 2 | Technical services |
| Segment 3 | Community and social services |
| Segment 4 | Governance & Administration (Not reportable Segment) |

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

61. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2022

| | Local economic development and planning services | Technical services | Community and social services | Governance & Administration (Not reportable Segment) | Total |
|---|--|---------------------|-------------------------------|--|----------------------|
| Revenue | | | | | |
| External revenue from exchange transactions | 13 404 865 | 521 442 743 | 40 917 891 | 5 048 217 | 580 813 716 |
| External revenue from non-exchange transactions | 2 151 484 | 80 351 323 | 2 703 430 | 307 542 840 | 392 749 077 |
| Interest revenue | - | 21 100 558 | 3 428 949 | 6 511 509 | 31 041 016 |
| Revenue from transactions with other segments | - | 18 021 410 | 557 143 | - | 18 578 553 |
| Total segment revenue | 15 556 349 | 640 916 034 | 47 607 413 | 319 102 566 | 1 023 182 362 |
| Entity's revenue | | | | | 1 023 182 362 |
| Expenditure | | | | | |
| Bulk Purchases | 47 775 | 336 130 960 | 468 745 | - | 336 647 480 |
| Debt impairment | - | 63 313 895 | 2 323 958 | 1 245 213 | 66 883 066 |
| Depreciation and amortisation | 226 945 | 97 306 454 | 6 732 002 | 4 217 108 | 108 482 509 |
| Employee Related Cost | 25 738 061 | 100 542 012 | 103 684 618 | 100 312 192 | 330 276 883 |
| Expenditure from transactions with other segments | 8 579 976 | 8 924 878 | 1 069 330 | 4 469 | 18 578 653 |
| Interest expense | - | 2 643 672 | 7 976 835 | 63 276 516 | 73 897 023 |
| Other operational expenses | 2 773 295 | 48 481 534 | 60 251 776 | 66 233 262 | 177 739 867 |
| Remuneration of Councillors | - | - | - | 19 486 076 | 19 486 076 |
| Repairs and maintenance | 2 778 419 | 70 736 725 | 9 638 531 | 2 619 613 | 85 773 288 |
| Total segment expenditure | 40 144 471 | 728 080 130 | 192 145 795 | 257 394 449 | 1 217 764 845 |
| Total segmental surplus/(deficit) | (24 588 122) | (87 164 096) | (144 538 382) | 61 708 117 | (194 582 483) |

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.

Moqhaka Local Municipality

Annual Financial Statements for the year ended 30 June 2022

Notes to the Annual Financial Statements

Figures in Rand

61. Segment information (continued)

2021

| | Local economic development and planning services | Technical services | Community and Social Services | Governance and Administration (Not reportable segment) | Total |
|---|--|---------------------|-------------------------------|--|----------------------|
| Revenue | | | | | |
| External revenue from exchange transactions | 8 303 585 | 484 263 859 | 52 848 615 | 3 909 726 | 549 325 785 |
| External revenue from non-exchange transactions | 286 873 | 107 970 648 | 19 921 515 | 272 068 528 | 400 247 564 |
| Interest revenue | - | 16 981 531 | 2 822 246 | 5 462 364 | 25 266 141 |
| Revenue from transactions with other segments | - | 14 382 861 | 532 372 | - | 14 915 233 |
| Total segment revenue | 8 590 458 | 623 598 899 | 76 124 748 | 281 440 618 | 989 754 723 |
| Entity's revenue | | | | | 989 754 723 |
| Expenditure | | | | | |
| Bulk Purchases | 34 425 | 290 982 925 | 425 608 | - | 291 442 958 |
| Debt Impairment | - | 78 417 068 | 1 433 272 | 638 983 | 80 489 323 |
| Depreciation and amortisation | 152 221 | 98 444 878 | 7 378 871 | 4 366 748 | 110 342 718 |
| Employee Related Cost | 21 643 603 | 92 141 909 | 97 744 060 | 100 353 305 | 311 882 877 |
| Expenditure from transactions with other segments | 6 104 224 | 7 630 530 | 1 177 479 | 3 000 | 14 915 233 |
| Interest expense | - | 17 985 640 | 6 561 109 | 6 820 876 | 31 367 625 |
| Other operational expenses | 653 318 | 42 001 949 | 53 435 139 | 38 152 111 | 134 242 517 |
| Remuneration of Councillors | - | - | - | 19 711 279 | 19 711 279 |
| Repairs and maintenance | 2 604 506 | 65 599 327 | 9 202 248 | 2 069 457 | 79 475 538 |
| Total segment expenditure | 31 192 297 | 693 204 226 | 177 357 786 | 172 115 759 | 1 073 870 068 |
| Total segmental surplus/(deficit) | (22 601 839) | (69 605 327) | (101 233 038) | 109 324 859 | (84 115 345) |

Following a change in the composition of its reportable segments, the corresponding items of segment information for earlier periods has been restated.