



Merafong City Local Municipality  
Annual Financial Statements  
for the year ended 30 June 2021  
GT 484

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## General Information

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<b>Legal form of entity</b>	Local Municipality
<b>Nature of business and principal activities</b>	Municipality
<b>Legislation governing the municipality's operations</b>	Municipal Finance Management Act (Act no.56 of 2003)
<b>Grading of local authority</b>	The municipality is a category C grade 4 local authority in terms of item 4 of the Government Notice R1227 of 18 December 2007 published in terms of the Remuneration of Public Office Bearers Act, 1998
<b>Members of Council</b>	
Executive Mayor	Sello GM
Speaker	Mphithikezi TE
Chief Whip	Mosiane WT
Members of Mayoral Committee	MMC Roads Stormwater and Public Works: Sello GM MMC Health and Social Development: Skosana ML MMC Corporate and Shared Services: Best N MMC Integrated Environmental Management: Lephuting MB MMC Local Economic, Tourism and Rural Development: Mganu LA MMC Finance: Tabane DV MMC Public Safety and Transport: Dlamini MD MMC Electricity Gas and Water: Matshe MN MMC Human Settlement and Land Development: Moyeni M MMC Sports, Recreation, Arts And Culture: Lekopa EM
<b>Accounting Officer</b>	Mdletshe Lovemore Siyethemba
<b>Acting Chief Financial Officer (CFO)</b>	Magongwa Julia, Ramogale
<b>Registered office</b>	Halite Street Carletonville
<b>Business address and Contact details</b>	Halite Street Carletonville Telephone number: 018 788 9500 Fax number: 018 786 1105 Website address: <a href="http://www.merafong.gov.za">www.merafong.gov.za</a>
<b>Postal address</b>	PO Box 3, Carletonville, 2500
<b>Bankers</b>	First National Bank
<b>Auditors</b>	Office of the Auditor-General of South Africa

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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### Abbreviations

<b>AGSA</b>	<b>Auditor-General of South Africa</b>
EPWP	Expanded Public Works Programme
GRAP	Generally Recognised Accounting Practice
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act (Act No 56 of 2003)
MIG	Municipal Infrastructure Grant
NLDTF	National Lottery Distribution Trust Fund
SALGBC	South African Local Government Bargaining Council
SDL	Skills Development Levy
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
WCA	Workmen's Compensation Act
WRDM	West Rand District Municipality

# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Officer's Responsibilities and Approval**

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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 were 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 2022 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.

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

Although the accounting officer is primarily responsible for the financial affairs of the municipality, the accounting officer is supported by the municipality's internal auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 4.

The annual financial statements set out on pages 4 to 77, which have been prepared on the going concern basis, were approved by the accounting officer on 10 January 2022 and were signed on its behalf by the acting Municipal Officer:

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**Mdletshe Lovemore Siyethemba**  
**Acting Municipal Manager**

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30 June 2021.

### 1. Going concern

During the year under review, the municipality operated under difficulties of Covid 19 which resulted in job losses. The impact of job losses was a significant decline in payment levels by the consumers and rate payers. These impacted negatively on the ability to service the obligation of the municipality. Debtors grew and the cash inflows of the municipality were reduced. The ability to service obligations was also negatively affected.

The total revenue for the year under review was (R1 961 601 823) compared to a total revenue of (R1 818 724 923) for the prior year. This signifies a revenue increase of (R142 876 900) and this is an increase of 7.86%. This increase is higher than year to year CPI of 4.9% in June 2021.

The total expenditure for the year under review amounted to (R2 291 726 424) compared to (R1 807 733 127) for the prior year. The increase in expenditure amounted to (R483 993 297) and this is an increase of 26.77%, which is substantially higher than the year to year CPI of 4.9% in June 2021.

The substantial increase in the expenditure was mainly due to the increase in debt impairment of (R375 339 324). This was as a result of the payment of municipal accounts which decreased substantially in the year under review. The municipality had a surplus of R22 418 752 in the year ended 30 June 2020. And in the year under review there was a deficit of (R330 130 600). This situation can be improved by increased payment levels and reduction in the provision for debt impairment. Council approved a turnaround strategy to address the low levels of payment for the accounts, and substantial water and electricity losses.

The municipality had a negative working capital of (R75 253 929) in the year under review i.e. Current liabilities exceed the current assets of (R 398 489 047 - R 1 148 742 976 ). The situation deteriorated further in the year under review, as the working capital was (R333 660 544) in the prior year. This is a deterioration in the working capital of the municipality and its ability to meet its obligations when they fall due. This deterioration is largely as a result of low payment levels of the municipality.

Though the current situation does not signify a situation of going concern, other measures over and above the turnaround strategy are being implemented. A zero-based budgeting system was implemented in the compilation of the current year budget. This introduction is intended to prioritise expenditure and to direct resources to areas of service delivery. The intended outcome is that there must be a reduction in the indebtedness of the municipality and the municipality should be a going concern. Debt collection service providers have been appointed to improve the collection of revenue. COGTA has assisted the municipality with revenue enhancement processes. The municipality is also in the process of normalizing the bypassed connections. A project is being undertaken to fix water leaks to reduce water losses

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Position as at 30 June 2021

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Assets</b>			
Current Assets			
Inventories	9	1 011 528	1 012 128
Receivables from exchange transactions	10	80 663	30 429
Other receivables from non-exchange transactions	11	9 140 953	2 620 641
VAT receivable	12	77 592 113	49 520 718
Consumer debtors	13	240 133 597	421 709 650
Cash and cash equivalents	14	70 530 193	179 144 183
		<b>398 489 047</b>	<b>654 037 749</b>
Non-Current Assets			
Investment property	3	320 218 730	320 218 730
Property, plant and equipment	4	2 778 649 771	2 749 247 932
Intangible assets	5	296 494	627 691
Heritage assets	6	166 842	189 048
		<b>3 099 331 837</b>	<b>3 070 283 401</b>
<b>Total Assets</b>		<b>3 497 820 884</b>	<b>3 724 321 150</b>
<b>Liabilities</b>			
Current Liabilities			
Long-term liabilities	16	7 761 105	7 006 518
Finance lease obligations	17	84 686	82 217
Payables from exchange transactions	20	1 001 179 626	789 574 235
Consumer deposits	22	23 411 543	18 204 521
Employee benefit obligations	8	3 433 000	3 475 000
Unspent conditional grants, receipts and donations	18	27 163 036	116 877 351
Provisions	19	85 709 980	52 478 451
		<b>1 148 742 976</b>	<b>987 698 293</b>
Non-Current Liabilities			
Long-term liabilities	16	35 748 373	43 593 776
Finance lease obligations	17	-	71 664
Employee benefit obligations	8	109 698 000	99 534 000
Provisions	19	112 014 559	40 717 669
		<b>257 460 932</b>	<b>183 917 109</b>
<b>Total Liabilities</b>		<b>1 406 203 908</b>	<b>1 171 615 402</b>
<b>Net Assets</b>		<b>2 091 616 976</b>	<b>2 552 705 748</b>
Accumulated surplus	15	2 091 616 976	2 552 705 748

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Statement of Financial Performance

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	26	756 328 780	721 400 549
Rental of facilities and equipment	40	518 707	1 121 176
Interest earned - outstanding receivables		142 532 378	148 639 919
Licences and permits	41	14 767 481	15 164 461
Other income	30	2 866 417	3 314 090
Interest earned - external investments	36	4 848 321	8 339 486
Gain on disposal of assets and liabilities		89 213	52 783
<b>Total revenue from exchange transactions</b>		<b>921 951 297</b>	<b>898 032 464</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	25	541 111 352	509 751 938
Property rates - penalties imposed	25	7 581 738	3 302 568
Surcharges and Taxes	43	24 852 194	-
<b>Transfer revenue</b>			
Government grants & subsidies	27	418 518 104	382 949 246
Public contributions and donations	31&28	150 822	855 421
Fines	42	47 436 316	23 833 286
<b>Total revenue from non-exchange transactions</b>		<b>1 039 650 526</b>	<b>920 692 459</b>
<b>Total revenue</b>	24	<b>1 961 601 823</b>	<b>1 818 724 923</b>
<b>Expenditure</b>			
Employee related costs	33	(355 691 923)	(316 753 200)
Remuneration of councillors	34	(22 589 904)	(22 854 874)
Depreciation and amortisation	37	(95 045 771)	(78 168 487)
Impairment loss	38	(40 386 269)	(54 743 899)
Finance costs	39	(54 162 013)	(52 667 196)
Debt impairment	35	(933 579 865)	(558 240 541)
Bulk purchases	46	(410 837 935)	(537 666 355)
Contracted services	44	(87 875 275)	(123 931 854)
Grants and subsidies paid	45	-	(5 493 927)
General expenses	32	(291 593 469)	(57 212 794)
<b>Total expenditure</b>		<b>(2 291 762 424)</b>	<b>(1 807 733 127)</b>
<b>(Deficit) surplus for the year</b>		<b>(330 160 601)</b>	<b>10 991 796</b>

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Statement of Changes in Net Assets

Figures in Rand		Total net assets
<b>Balance at 01 July 2019</b>	<b>2 541 713 952</b>	<b>2 541 713 952</b>
Changes in net assets		
Deficit for the year	10 991 796	10 991 796
Total changes	10 991 796	10 991 796
<b>Restated* Balance at 01 July 2020</b>	<b>2 564 132 704</b>	<b>2 564 132 704</b>
Changes in net assets		
Prior year error correction	(122 930 240)	(122 930 240)
Net income (losses) recognised directly in net assets	(122 930 240)	(122 930 240)
Surplus for the year	(349 585 488)	(349 585 488)
Total recognised income and expenses for the year	(472 515 728)	(472 515 728)
Total changes	(472 515 728)	(472 515 728)
<b>Balance at 30 June 2021</b>	<b>2 091 616 976</b>	<b>2 091 616 976</b>
Note(s)		



# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Cash Flow Statement

Figures in Rand	Note(s)	2021	2020 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Sale of goods and services & taxes		634 025 890	684 385 928
Grants		418 518 104	405 918 495
Interest income		4 778 855	8 339 486
Other receipts		9 433 893	3 314 090
		<u>1 066 756 742</u>	<u>1 101 957 999</u>
<b>Payments</b>			
Employee costs		(342 901 697)	(349 858 523)
Suppliers		(634 862 372)	(494 082 630)
Finance costs		(54 162 013)	(52 667 185)
Other payments		(3 412 536)	(549 447)
		<u>(1 035 338 618)</u>	<u>(897 157 785)</u>
<b>Net cash flows from operating activities</b>	47	<u><b>31 418 124</b></u>	<u><b>204 800 214</b></u>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	4	(133 482 216)	(134 092 753)
Proceeds from sale of investments		610 113	-
<b>Net cash flows from investing activities</b>		<u><b>(132 872 103)</b></u>	<u><b>(134 092 753)</b></u>
<b>Cash flows from financing activities</b>			
Repayment of long-term liabilities		(7 090 816)	(6 487 914)
Finance lease payments		(69 195)	(346 876)
<b>Net cash flows from financing activities</b>		<u><b>(7 160 011)</b></u>	<u><b>(6 834 790)</b></u>
<b>Net decrease in cash and cash equivalents</b>		<u><b>(108 613 990)</b></u>	<u><b>63 872 671</b></u>
Cash and cash equivalents at the beginning of the year		179 144 183	115 271 512
<b>Cash and cash equivalents at the end of the year</b>	14	<u><b>70 530 193</b></u>	<u><b>179 144 183</b></u>

# Merafong City Local Municipality

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## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget 'R'000	Adjustments R'000	Final Budget R'000	Actual amounts on comparable basis R'000	Difference between final budget and actual	Reference
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Figures in Rand

### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	746 910	(50 380)	<b>696 530</b>	627 721	<b>(68 809)</b>
Rental of facilities and equipment	-	-	-	518 707	<b>518 707</b>
Interest earned - outstanding receivables	-	-	-	142 532 378	<b>142 532 378</b>
Interest earned - external investment	9 368	(3 333)	<b>6 035</b>	4 443	<b>(1 592)</b>
Licences and permits	-	-	-	14 767 481	<b>14 767 481</b>
Other income	213 159	39 597	<b>252 756</b>	146 118	<b>(106 638)</b>
Interest earned - external investment	-	-	-	4 848 321	<b>4 848 321</b>

<b>Total revenue from exchange transactions</b>	<b>969 437</b>	<b>(14 116)</b>	<b>955 321</b>	<b>163 445 169</b>	<b>162 489 848</b>
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##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	569 240	(260 458)	<b>308 782</b>	450 651	<b>141 869</b>
Property rates - penalties imposed	-	-	-	7 581 738	<b>7 581 738</b>
Surcharges and Taxes	-	-	-	24 852 194	<b>24 852 194</b>

##### Transfer revenue

Government grants & subsidies	278 743	1 283	<b>280 026</b>	158 001	<b>(122 025)</b>
Public contributions and donations	-	-	-	150 822	<b>150 822</b>
Fines, Penalties and Forfeits	-	-	-	47 436 316	<b>47 436 316</b>

<b>Total revenue from non-exchange transactions</b>	<b>847 983</b>	<b>(259 175)</b>	<b>588 808</b>	<b>80 629 722</b>	<b>80 040 914</b>
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<b>Total revenue</b>	<b>1 817 420</b>	<b>(273 291)</b>	<b>1 544 129</b>	<b>244 074 891</b>	<b>242 530 762</b>
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#### Expenditure

Employee related costs	(367 438)	(809)	<b>(368 247)</b>	(283 091)	<b>85 156</b>
Remuneration of councillors	(27 731)	5 222	<b>(22 509)</b>	(18 843)	<b>3 666</b>
Depreciation and amortisation	(106 226)	(503)	<b>(106 729)</b>	(144)	<b>106 585</b>
Impairment loss/ Reversal of impairments	-	-	-	(40 386 269)	<b>(40 386 269)</b>
Finance costs	(56 874)	21 776	<b>(35 098)</b>	(37 293)	<b>(2 195)</b>
Debt impairment	-	-	-	(933 579 865)	<b>(933 579 865)</b>
Bulk purchases	(523 758)	7 970	<b>(515 788)</b>	(483 599)	<b>32 189</b>
Contracted Services	-	-	-	(87 875 275)	<b>(87 875 275)</b>
Transfers and Subsidies	(2 860)	1 710	<b>(1 150)</b>	(1 102)	<b>48</b>
Other (taken out of General expenses)	(730 763)	(30 057)	<b>(760 820)</b>	(152 565)	<b>608 255</b>

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget 'R'000	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Total expenditure</b>	<b>(1 815 650)</b>	<b>5 309</b>	<b>(1 810 341)</b>	<b>(1 062 818 046)</b>	<b>(1 061 007 705)</b>	
<b>Operating deficit</b>	<b>1 770</b>	<b>(267 982)</b>	<b>(266 212)</b>	<b>(818 743 155)</b>	<b>(818 476 943)</b>	
Gain on disposal of assets and liabilities	-	-	-	89 213	89 213	
<b>Deficit before taxation</b>	<b>1 770</b>	<b>(267 982)</b>	<b>(266 212)</b>	<b>(818 653 942)</b>	<b>(818 387 730)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>1 770</b>	<b>(267 982)</b>	<b>(266 212)</b>	<b>(818 653 942)</b>	<b>(818 387 730)</b>	

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
<b>2021</b>											
<b>Financial Performance</b>											
Property rates	569 240	(260 458)	308 782	-		308 782	450 651		141 869	146 %	79 %
Service charges	746 910	(50 380)	696 530	-		696 530	627 721		(68 809)	90 %	84 %
Investment revenue	9 368	(3 333)	6 035	-		6 035	4 443		(1 592)	74 %	47 %
Transfers recognised - operational	278 743	1 283	280 026	-		280 026	158 001		(122 025)	56 %	57 %
Other own revenue	213 159	39 597	252 756	-		252 756	146 118		(106 638)	58 %	69 %
<b>Total revenue (excluding capital transfers and contributions)</b>	<b>1 817 420</b>	<b>(273 291)</b>	<b>1 544 129</b>	<b>-</b>		<b>1 544 129</b>	<b>1 386 934</b>		<b>(157 195)</b>	<b>90 %</b>	<b>76 %</b>
Employee costs	(367 438)	(809)	(368 247)	-	-	(368 247)	(283 091)	-	85 156	77 %	77 %
Remuneration of councillors	(27 731)	5 222	(22 509)	-	-	(22 509)	(18 843)	-	3 666	84 %	68 %
Debt impairment	-	-	-			-	(933 579 865)	-	(933 579 865)	DIV/0 %	DIV/0 %
Depreciation and asset impairment	(106 226)	(503)	(106 729)			(106 729)	(144)	-	106 585	- %	- %
Finance charges	(56 874)	21 776	(35 098)	-	-	(35 098)	(2 195)	-	32 903	6 %	4 %
Materials and bulk purchases	(523 758)	7 970	(515 788)	-	-	(515 788)	(483 599)	-	32 189	94 %	92 %
Transfers and grants	(2 860)	1 710	(1 150)	-	-	(1 150)	(1 102)	-	48	96 %	39 %
Other expenditure	(730 763)	(30 057)	(760 820)	-	-	(760 820)	(152 565)	-	608 255	20 %	21 %
<b>Total expenditure</b>	<b>(1 815 650)</b>	<b>5 309</b>	<b>(1 810 341)</b>	<b>-</b>	<b>-</b>	<b>(1 810 341)</b>	<b>(934 521 404)</b>	<b>-</b>	<b>(932 711 063)</b>	<b>51 621 %</b>	<b>51 470 %</b>
<b>Surplus/(Deficit)</b>	<b>1 770</b>	<b>(267 982)</b>	<b>(266 212)</b>	<b>-</b>		<b>(266 212)</b>	<b>(933 134 470)</b>		<b>(932 868 258)</b>	<b>350 523 %</b>	<b>719 462 %</b>

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Appropriation Statement

Figures in Rand

	Original budget	Budget adjustments (i.t.o. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.t.o. s31 of the MFMA)	Virement (i.t.o. council approved policy)	Final budget	Actual outcome	Unauthorised expenditure	Variance	Actual outcome as % of final budget	Actual outcome as % of original budget
Transfers recognised - capital	-	-	-	-		-	137 244		137 244	DIV/0 %	DIV/0 %
Contributions recognised - capital and contributed assets	-	-	-	-		-	150 822		150 822	DIV/0 %	DIV/0 %
<b>Surplus (Deficit) after capital transfers and contributions</b>	<b>1 770</b>	<b>(267 982)</b>	<b>(266 212)</b>	<b>-</b>		<b>(266 212)</b>	<b>(932 846 404)</b>		<b>(932 580 192)</b>	<b>350 415 %</b>	<b>703 187 %</b>
<b>Surplus/(Deficit) for the year</b>	<b>1 770</b>	<b>(267 982)</b>	<b>(266 212)</b>	<b>-</b>		<b>(266 212)</b>	<b>(932 846 404)</b>		<b>(932 580 192)</b>	<b>350 415 %</b>	<b>703 187 %</b>

### Capital expenditure and funds sources

#### Cash flows

Net cash from (used) operating	-	-	-	-		-	31 418 124		31 418 124	DIV/0 %	DIV/0 %
Net cash from (used) investing	-	-	-	-		-	(132 872 103)		(132 872 103)	DIV/0 %	DIV/0 %
Net cash from (used) financing	-	-	-	-		-	(7 160 011)		(7 160 011)	DIV/0 %	DIV/0 %
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>-</b>	<b>(108 613 990)</b>		<b>(108 613 990)</b>	<b>DIV/0 %</b>	<b>DIV/0 %</b>
Cash and cash equivalents at the beginning of the year	-	-	-	-		-	179 144 183		179 144 183	DIV/0 %	DIV/0 %
<b>Cash and cash equivalents at year end</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>		<b>-</b>	<b>70 530 193</b>		<b>(70 530 193)</b>	<b>DIV/0 %</b>	<b>DIV/0 %</b>

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### 1. Presentation of Annual Financial Statements

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

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

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

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

#### 1.1 Significant judgements and sources of estimation uncertainty

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

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

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

##### Fair value estimation

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values.

##### Impairment testing

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

#### 1.2 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.

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

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

### Cost model

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

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite

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

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

### 1.3 Property, plant and equipment

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.

The residual value, and the useful life and depreciation method of each asset is reviewed annually and any changes are recognised as change in accounting estimate in the Statement of Financial Performance.

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

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.

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.

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

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

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.

### SUBSEQUENT MEASUREMENT - COST MODEL

Subsequent to initial recognition, items of property, plant and equipment are measured at cost less accumulated depreciation and impairment losses. Land is not depreciated as it is deemed to have an indefinite useful life.

Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component. Subsequent expenditure incurred on an asset is capitalised when it increases the capacity or future economic benefits associated with the asset and the cost or fair value of the item can be measured reliably.

### DEPRECIATION AND IMPAIRMENT

Depreciation is calculated on the depreciable amount, using the straight-line method over the estimated useful lives of the assets. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately. The annual depreciation rates are based on the following estimated average asset lives:

Infrastructure		Other	
Roads and Storm water	5 - 80 Years	Buildings	5 - 100 Years
Electricity	15 - 50 Years	Other vehicles	5 - 8 Years
Water	15 - 80 Years	Office equipment	3 - 12 Years
Sewerage	10 - 80 Years	Furniture and fittings	7 - 30 Years
		Plant and equipment	7 - 29 Years
		Computer equipment	5 - 8 Years
		Library Material	5 - 15 Years
		Other assets	5 - 30 Years
		Land	Indefinite

The residual value, the useful life of an asset and the depreciation method is reviewed annually and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality each reporting date whether there is any indication that the entity 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 entity revises the expected useful life and/or residual value accordingly. The change is accounted for as a change in an accounting estimate.

The municipality tests for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of property,



# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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plant and equipment is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

Depreciation is calculated from the time the asset was brought in use. where the depreciation was not calculated at the time the asset was brought into use backlog depreciation will be calculated in line with the usage of the asset or any component thereof

### **DERECOGNITION**

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 on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

#### **1.4 Intangible assets**

An asset is identified as an intangible asset when it:

- 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, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

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.

Intangible assets are initially recognised at cost.

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.

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

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

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

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

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### INITIAL RECOGNITION

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised. Research expenditure is never capitalised, while development expenditure is only capitalised to the extent that:

- the municipality intends to complete the intangible asset for use or sale;
- it is technically feasible to complete the intangible asset;
- the municipality has the resources to complete the project; and
- it is probable that the municipality will receive future economic benefits or service potential.

Intangible assets are initially recognised at cost.

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

Where an intangible asset 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.

### SUBSEQUENT MEASUREMENT - COST MODEL

Intangible assets are subsequently carried at cost less accumulated amortisation and impairments. The cost of an intangible asset is amortised over the useful life where that useful life is finite. Where the useful life is indefinite, the asset is not amortised but is subject to an annual impairment test.

### AMORTISATION AND IMPAIRMENT

Amortisation is charged so as to write off the cost or valuation of intangible assets over their estimated useful lives using the straight line method. The annual amortisation rates are based on the following estimated average asset lives:

Computer software	3 - 12 years
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The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at each reporting date and any changes are recognised as a change in accounting estimate in the Statement of Financial Performance.

The municipality tests intangible assets with finite useful lives for impairment where there is an indication that an asset may be impaired. An assessment of whether there is an indication of possible impairment is done at each reporting date. Where the carrying amount of an item of an intangible asset is greater than the estimated recoverable amount (or recoverable service amount), it is written down immediately to its recoverable amount (or recoverable service amount) and an impairment loss is charged to the Statement of Financial Performance.

### DERECOGNITION

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising from the derecognition of an intangible asset is included in surplus or deficit when the asset is derecognised.

#### 1.5 Heritage assets

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

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

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

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

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

# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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

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

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

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

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

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

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

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

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

### **Recognition**

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

### **Initial measurement**

Heritage assets are measured at cost.

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

### **Subsequent measurement**

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

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

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

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

### **Impairment**

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

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### Transfers and subsidies - non exchange revenue

#### Unconditional Grants

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

#### **Conditional Grants**

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

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

#### **Services Received In-kind – non-exchange revenue**

Services in kind are recognised at its fair value when it is significant to the operations and/or service delivery objectives and when it is probable that the future economic benefits or service potential will flow to the entity and the fair value of the assets can be measured reliably. If the services in-kind are not significant to the operations and/or service delivery objectives and/or do not satisfy the criteria for recognition, only the nature and type of services in-kind received during the reporting period is disclosed.

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

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

### 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).

### 1.6 Financial instruments

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

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

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

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

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### Classification

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

Class	Category
Trade and other receivables (including long-term receivables)	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Investments	Financial asset measured at amortised cost

The municipality 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
Long-term liabilities	Financial liability measured at amortised cost
Payables from exchange transactions	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Unspent conditional grants and receipts	Financial liability measured at amortised cost

### Initial recognition

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

### Initial measurement of financial assets and financial liabilities

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

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

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

# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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### **Subsequent measurement of financial assets and financial liabilities**

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

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

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

### **Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the municipality 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, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

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

### **Reclassification**

The municipality does not reclassify a financial instrument while it is issued or held unless it is:  
combined instrument that is required to be measured at fair value; or  
an investment in a residual interest that meets the requirements for reclassification.

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

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

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

### **Gains and losses**

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

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

### **Impairment and uncollectibility of financial assets**

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

Financial assets measured at amortised cost:

# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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

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

Financial assets measured at cost:

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



# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### Derecognition

#### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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

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

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

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

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 municipality has retained substantially all the risks and rewards of ownership of the transferred asset, the municipality continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality 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 municipality 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 municipality 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).

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### Presentation

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

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

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

Distributions to holders of residual interests are recognised by the entity directly in net assets. Transaction costs incurred on residual interests are accounted for as a deduction from net assets. Income tax [where applicable] relating to distributions to holders of residual interests and to transaction costs incurred on residual interests are accounted for in accordance with the International Accounting Standard on Income Taxes.

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.

### Identification

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

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

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

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

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

### Recognition

The municipality recognises statutory receivables as follows:

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

### Transitional provision

The municipality took advantage of the transitional provisions granted in Directive 3 of the GRAP Reporting Framework. Refer to note 1.31 for more details in this regard.

### 1.7 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.

# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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### **Finance leases - lessee**

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

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

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

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

### **Operating leases - lessee**

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

### **1.8 Inventories**

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

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

Inventories are measured at the lower of cost and current replacement cost where they are held for;  
distribution at no charge or for a nominal charge; or  
consumption in the production process of goods to be distributed at no charge or for a nominal charge.

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

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

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

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

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### **1.9 Impairment of cash-generating assets**

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

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

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

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

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

# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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

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

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

Useful life is either:

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

### **Identification**

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

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

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

### **Value in use**

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

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

### **Basis for estimates of future cash flows**

In measuring value in use the municipality:

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

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

### Discount rate

The discount rate is the prime overdraft interest rate that reflects current market assessments of the time value of money, .

### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

### Cash-generating units

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

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

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

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

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

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

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

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

# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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### **Reversal of impairment loss**

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

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

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

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

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

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

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

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

### **Redesignation**

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

### **1.10 Impairment of non-cash-generating assets**

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

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

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

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

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

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

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

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

# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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

Useful life is either:

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

### **Identification**

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

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

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

### **Value in use**

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

The present value of the remaining service potential of a non-cash-generating assets is determined using the most appropriate between the following approaches:

#### **Depreciated replacement cost approach**

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

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

#### **Restoration cost approach**

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

#### **Service units approach**

The present value of the remaining service potential of the asset is determined by reducing the current cost of the remaining service potential of the asset before impairment, to conform to the reduced number of service units expected from the asset in its impaired state. The current cost of replacing the remaining service potential of the asset before impairment is determined as the depreciated reproduction or replacement cost of the asset before impairment, whichever is lower.

# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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### **Recognition and measurement**

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

### **Reversal of an impairment loss**

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

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

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

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

### **Redesignation**

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

#### **1.11 Share capital / contributed capital**

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

#### **1.12 Employee benefits**

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

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

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



# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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### **Short-term employee benefits**

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

Short-term employee benefits include items such as:

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

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

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

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

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

### **Post-employment benefits**

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

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

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

### **Multi-employer plans**

The municipality classifies a multi-employer plan as a defined contribution plan or a defined benefit plan under the terms of the plan (including any constructive obligation that goes beyond the formal terms).

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

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

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### Post-employment benefits: Defined contribution plans

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

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

- as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the reporting date, an municipality recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset.

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

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### Post-employment benefits: Defined benefit plans

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

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

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

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

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

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

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

The amount recognised as a defined benefit liability is the net total of the following amounts:  
the present value of the defined benefit obligation at the reporting date;  
plus any liability that may arise as a result of a minimum funding requirement

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

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

- current service cost;
- interest cost;
- actuarial gains and losses;
- past service cost; and
- the effect of any curtailments or settlements

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

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

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

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

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### Actuarial assumptions

Actuarial assumptions are unbiased and mutually compatible.

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

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

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

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

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

### Other post retirement obligations

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

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

- current service cost;
- interest cost;
- actuarial gains and losses, which are recognised immediately;
- past service cost, which are recognised immediately; and
- the effect of any curtailments or settlements.

### 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.

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.

# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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The municipality does not recognise a contingent liability or contingent asset. A contingent liability is disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. A contingent asset is disclosed where an inflow of economic benefits is probable.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

A provision for restructuring costs is recognised only when the following criteria over and above the recognition criteria of a provision have been met:

(a) The municipality has a detailed formal plan for the restructuring identifying at least:

- the business or part of a business concerned;
- the principal locations affected;
- the location, function, and approximate number of employees who will be compensated for terminating their services;
- the expenditures that will be undertaken; and
- when the plan will be implemented; and

(b) The municipality has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

### **Landfill rehabilitation**

The Landfill Rehabilitation Provision is created for the rehabilitation of the current operational sites at the future estimated time of closure.

The value of the Provision is based on the expected future cost to rehabilitate the various sites discounted back to the balance sheet date at the cost of capital, which is currently 8.90% (2018:8.90%).

The municipality has an obligation to rehabilitate these Landfill sites. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful lives and make assumptions as to the useful lives of these assets, which influence the provision for future costs.

The 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, and any impairment loss is recognised in surplus or deficit.

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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### Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period.
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity test the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.9 and 1.10.

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

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

### 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.

Revenue from service charges are recognised when the services are rendered.

Revenue from rental of facilities are recognised over the period of the rental.

Revenue from sale of goods are recognised when the sale is concluded.

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

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

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

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

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

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

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

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

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

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

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

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

### 1.15 Revenue from non-exchange transactions

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

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

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

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

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

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

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an 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.

# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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### **Recognition**

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

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

### **Measurement**

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

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

### **Taxes (Property Rates)**

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

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

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

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

Taxation revenue is determined at a gross amount.

### **Transfers**

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

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

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

### **Debt forgiveness and assumption of liabilities**

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

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



# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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### **Fines**

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

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

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

### **Bequests**

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

### **Gifts and donations, including goods in-kind - non-exchange revenue**

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

### **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.

### **Grants and subsidies in-kind**

Grants and subsidies in-kinds are recognised as revenue when it is probable that the future economic benefits or services potential will flow to the municipality and the fair value of the asset can be measured reliably.

### **1.16 Comparative figures**

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

### **1.17 Investment income**

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

### **1.18 Borrowing costs**

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

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

### **1.19 Accounting by principals and agents**

#### **Identification**

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

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

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

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

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

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

### Binding arrangement

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

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

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

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

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

- It does not have the power to determine the significant terms and conditions of the transaction.

- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.

- It is not exposed to variability in the results of the transaction.

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

### Recognition

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

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

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

### 1.20 Comparative figures

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

### 1.21 Unauthorised expenditure

Unauthorised expenditure means:

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

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

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

# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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### **1.22 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.

### **1.23 Irregular expenditure**

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

- (a) this Act; or
- (b) the State Tender Board Act, 1968 (Act No. 86 of 1968), or any regulations made in terms of the Act; or
- (c) any provincial legislation providing for procurement procedures in that provincial government.

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), the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the Municipality's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### **1.24 Use of estimates**

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

### **1.25 Going concern**

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

### **1.26 Commitments**

The annual financial statements have been prepared on the basis of accounting policies applicable to liquidation. 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 until the entity is deregistered.

### **1.27 VAT**

VAT is payable on the receipts basis. The municipality is liable to account for VAT at the standard rate (15%) in terms of section 7 (1) (a) of the VAT Act, in respect of the supply of goods or services except where the supplies are specifically zero-rated in terms of section 11, exempted in terms of section 12 of the VAT Act or is out of scope for VAT purposes.

VAT is paid over to SARS only once payment is received from debtors and claimed from SARS once payment is made to a creditor.

### **1.28 Budget information**

Municipalities 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 provides 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 economic classification linked to performance outcome objectives.

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Accounting Policies

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

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

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

### 1.29 Related parties

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

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

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

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

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

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

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

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

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

### 1.30 Events after reporting date

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

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

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

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

# **Merafong City Local Municipality**

Annual Financial Statements for the year ended 30 June 2021

## **Accounting Policies**

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### **1.31 Transitional provisions**

#### **Transitional provision for Statutory Receivables**

The municipality changed its relating accounting policy in 2021. The change in accounting policy is made in accordance with its transitional provision as per Directive 3 of the GRAP Reporting Framework.

Until such time as the measurement period expires and relating items are classified and measured in accordance with the requirements of the associated Standard of GRAP, the municipality need not comply with the relating requirements of the Standard of GRAP on:

Statutory receivables (GRAP 108)

The municipality will comply with the disclosure requirements of GRAP 108, as and when statutory receivables are classified and measured in accordance with the Standard of GRAP.

Refer to note 63 for additional disclosure in this regard.

#### **Due to initial adoption of the GRAP standard**

According to the transitional provision, the municipality is not required to change its accounting policy in respect of the classification and measurement of Statutory Receivables for reporting period beginning on a date within 3 years following the date of first adoption of the specific Standard of GRAP (GRAP 108). The transitional provision expires on 2022/06/30.

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 2. New standards and interpretations

#### 2.1 Standards and interpretations issued, but not yet effective

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

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
GRAP 104 (amended): Financial Instruments	Not yet set	Unlikely there will be a material impact
Guideline: Guideline on Accounting for Landfill Sites	Not yet set	Unlikely there will be a material impact
Guideline: Guideline on the Application of Materiality to Financial Statements	Not yet set	Unlikely there will be a material impact

As per the background to this Interpretation of the Standards of GRAP, there are a number of legislative and regulatory processes that govern how entities levy, charge or calculate revenue, in the public sector. Adjustments to revenue already recognised in terms of legislation or similar means arise from the completion of an internal review process within the entity, and/or the outcome of an external appeal or objection process undertaken in terms of legislation or similar means. Adjustments to revenue include any refunds that become payable as a result of the completion of a review, appeal or objection process. The adjustments to revenue already recognised following the outcome of a review, appeal or objection process can either result in a change in an accounting estimate, or a correction of an error.

As per the scope, this Interpretation of the Standards of GRAP clarifies the accounting for adjustments to exchange and non-exchange revenue charged in terms of legislation or similar means, and interest and penalties that arise from revenue already recognised as a result of the completion of a review, appeal or objection process. Changes to the measurement of receivables and payables, other than those changes arising from applying this Interpretation, are dealt with in accordance with the applicable Standards of GRAP. The principles in this Interpretation may be applied, by analogy, to the accounting for adjustments to exchange or non-exchange revenue that arises from contractual arrangements where the fact patterns are similar to those in the Interpretation.

The interpretation sets out the issues and relating consensus with accounting for adjustments to revenue.

The effective date of the interpretation is for years beginning on or after 01 April 2020.

The municipality expects to adopt the interpretation for the first time in the 2019/2020 annual financial statements.

The impact of the standard is set out in note Changes in Accounting Policy.

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 3. Investment property

	2021			2020		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	320 218 730	-	320 218 730	320 218 730	-	320 218 730

#### Reconciliation of investment property - 2021

	Opening balance	Total
Investment property	320 218 730	320 218 730

#### Reconciliation of investment property - 2020

	Opening balance	Total
Investment property	320 218 730	320 218 730

#### Details of property

##### Erf 589, Welverdied

Terms and conditions

- Council resolved that the land be transferred, however the property has not yet been transferred as at 30 June 2021.

4 400	-
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##### Erf 1790, Khutsong south

Terms and conditions

Council resolved that the land be transferred, however the property has not yet been transferred as at 30 June 2021.

17 250	-
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-The municipal Investment property is initially recognised at cost.

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

2021

2020

### 4. Property, plant and equipment

	2021			2020		
	Cost	Accumulated depreciation and accumulated impairment	Carrying value	Cost	Accumulated depreciation and accumulated impairment	0
Land and Buildings	419 698 506	(178 013 304)	241 685 202	379 016 920	(170 722 798)	208 294 122
Infrastructure	4 708 369 422	(2 204 702 614)	2 503 666 808	4 616 922 753	(2 118 017 406)	2 498 905 347
Library equipment	28 902 456	(14 466 782)	14 435 674	29 922 941	(11 885 015)	18 037 926
Other Property, Plant and Equipment	43 589 984	(24 727 897)	18 862 087	44 199 565	(20 189 028)	24 010 537
<b>Total</b>	<b>5 200 560 368</b>	<b>(2 421 910 597)</b>	<b>2 778 649 771</b>	<b>5 070 062 179</b>	<b>(2 320 814 247)</b>	<b>2 749 247 932</b>

### Reconciliation of property, plant and equipment - 2021

	Opening balance	Additions	Corrections	Disposals and Impairment losses	Depreciation	Total
Land and Buildings	208 294 122	13 107 444	(26 087 771)	-	(7 290 506)	188 023 289
Infrastructure	2 498 905 347	143 560 429	-	-	(86 685 208)	2 555 780 568
Library equipment	18 037 926	2 902 114	-	(1 264 868)	(3 407 188)	16 267 984
Other Property, Plant and Equipment	24 010 537	-	-	(578 676)	(4 853 932)	18 577 929
	<b>2 749 247 932</b>	<b>159 569 987</b>	<b>(26 087 771)</b>	<b>(1 843 544)</b>	<b>(102 236 834)</b>	<b>2 778 649 770</b>

### Reconciliation of property, plant and equipment - 2020

	Opening balance	Additions	Disposals and Impairment losses	Review Useful life	Depreciation	Total
Land and Buildings	260 737 779	-	(77 156 213)	-	24 712 556	208 294 122
Infrastructure	2 563 615 173	118 420 330	161 076	-	(183 291 233)	2 498 905 346
Library equipment	7 229 831	649 018	(74 994)	12 940 542	(2 706 471)	18 037 926
Other property plant and equipment	11 618 692	-	(14)	16 993 759	(4 601 900)	24 010 537
	<b>2 843 201 475</b>	<b>119 069 348</b>	<b>(77 070 145)</b>	<b>29 934 301</b>	<b>(165 887 048)</b>	<b>2 749 247 931</b>

### Reconciliation of Work In Process included in the property, plant and equipment carrying amount - 2021

	Opening balance	Additions	Transfers	impairment	Total
Land and buildings	49 306 846	13 107 443	(26 031 885)	-	36 382 404
Infrastructure	366 273 501	143 560 429	(179 827 061)	-	330 006 869
Other property plant and equipment	245 029	2 902 114	(3 175 133)	-	(27 990)
	<b>415 825 376</b>	<b>159 569 986</b>	<b>(209 034 079)</b>	<b>-</b>	<b>366 361 283</b>



# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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

#### Reconciliation of Work In Process included in the property, plant and equipment carrying amount - 2020

	Opening balance	Impairment	Transfers to assets	Other movements	Total
Land and buildings	49 306 846	-	-	-	49 306 846
Infrastructure	406 659 770	(40 386 269)	-	-	366 273 501
Other Property, plant and equipment	245 029	-	-	-	245 029
	<b>456 211 645</b>	<b>(40 386 269)</b>	<b>-</b>	<b>-</b>	<b>415 825 376</b>

#### Expenditure incurred to repair and maintain property, plant and equipment

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

Employee related costs	-	97 379 398
Contracted services	13 107 444	7 708 212
	<b>13 107 444</b>	<b>105 087 610</b>

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.

### 5. Intangible assets

	2021			2020		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer Software	8 607 746	(8 311 251)	296 494	8 607 746	(7 980 055)	627 691

#### Reconciliation of intangible assets - 2021

Opening balance	Amortisation	Total
627 690	(331 228)	296 462

#### Reconciliation of intangible assets - 2020

Opening balance	Amortisation	Total
1 485 213	(857 991)	627 222

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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### 6. Heritage assets

	2021			2020		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	184 866	(18 024)	166 842	201 366	(12 318)	189 048

#### Reconciliation of heritage assets 2021

	Opening balance	Other changes, movements	Total
Art Collections, antiquities and exhibits	189 048	(22 206)	166 842

#### Reconciliation of heritage assets 2020

	Opening balance	Other changes, movements	Total
Art Collections, antiquities and exhibits	199 116	(10 068)	189 048

### 7. Financial assets by category

The accounting policies for financial instruments have been applied to the line items below:

#### At amortised cost

Consumer debtors	240 168 765	421 709 650
Cash and cash equivalents	76 137 714	179 144 183
Receivables from exchange transactions	80 663	1 128 815
	<b>316 387 142</b>	<b>601 982 648</b>

### 8. Employee benefit obligations

#### Defined benefit plan

The following is defined as a benefit plan: Joint Municipal Pension Fund. These are not treated as defined benefit plans as defined by GRAP25, but are accounted for as defined contribution plans. This is in line with the exemption in GRAP 25.31 which states that where information required for defined benefit plan accounting is not available in respect of multi-employer plans, these should be accounted for as defined contribution plans. The municipality has been unsuccessful in obtaining the necessary information to support proper defined benefit plan accounting due to restrictions imposed by the multi-employer plan. It is therefore deemed impracticable to obtain this information at a suitable level of detail.

ARCH Actuaries, approved pension fund valuator and member of the Actuarial Society of South Africa (ASSA), performed the actuarial valuations at 30 June 2021 as well as 30 June 2020.

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

#### Carrying value

Present value of the defined benefit obligation-wholly unfunded	(113 131 000)	(103 009 000)
Non-current liabilities	(109 698 000)	(99 534 000)
Current liabilities	(3 433 000)	(3 475 000)
	<b>(113 131 000)</b>	<b>(103 009 000)</b>

## Notes to the Annual Financial Statements

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### 8. Employee benefit obligations (continued)

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

Opening balance	(103 009 000)	(122 909 524)
Benefits paid	3 486 920	3 383 970
Net expense recognised in the statement of financial performance	(13 608 920)	16 516 554
	<b><u>(113 131 000)</u></b>	<b><u>(103 009 000)</u></b>

### Net expense recognised in the statement of financial performance

Current service cost	(3 817 000)	(4 671 871)
Interest cost	(10 689 000)	(11 478 224)
Actuarial (gains) losses	897 080	32 666 649
	<b><u>(13 608 920)</u></b>	<b><u>16 516 554</u></b>

## Notes to the Annual Financial Statements

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### 8. Employee benefit obligations (continued)

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	10,16 %	10,55 %
Medical cost trend rates	6,89 %	6,59 %
Expected increase in healthcare costs	3,06 %	3,72 %

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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### 8. Employee benefit obligations (continued)

#### Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Change	In-service
Central Assumptions		78.212
Health care inflation	1%	85.222
	-1%	69.555
Post-retirement mortality	+1 yr	76.340
	-1 yr	80.044
Average retirement age	-1 yr	84.741
Withdrawal Rate	-10%	68.486

#### Sensitivity Analysis on the Accrued Liability (R Millions)

Assumption	Continuation	Total	% change
Central Assumptions	34.919	113.131	
Health care inflation	35.390	120.612	7%
	34.046	103.601	-8%
Post-retirement mortality	33.782	110.122	-3%
	36.050	116.094	3%
Average retirement age	34.919	119.660	6%
Withdrawal Rate	34.919	103.405	-9%

#### Sensitivity Analysis on the Current-service and Interest Costs

Assumption	Change	Current-service Cost
Central Assumptions		3,817,000
Health care inflation	1%	4,224,000
	-1%	3,326,000
Post-retirement mortality	-1 yr	3,903,000
Average retirement age	-1 yr	3,958,000
Withdrawal Rate	-10%	3,249,000

#### Sensitivity Analysis on the Current-service and Interest Costs

Assumption	Interest Cost	Total	% change
Central Assumptions	10,689,000	14,506,000	
Health care inflation	11,425,000	15,649,000	8%
	9,775,000	13,101,000	-10%
Post-retirement mortality	10,960,000	14,863,000	2%
Average retirement age	11,351,000	15,309,000	6%
Withdrawal Rate	9,552,000	12,801,000	-12%

There are no plan assets.

#### Key demographic assumptions

Assumption	Value
Average retirement age	62
Continuation of membership at retirement	75%
Proportion assumed married at retirement	60%
Proportion of eligible current non-member employees joining the scheme by retirement	15%
Mortality during employment	SA 85-90
Mortality post-retirement	PA90-1
Withdrawals from service (sample annual rates)	Age
	20
	25
	30
	35
	40
	45
	50
	55+
	Females
	9%
	8%
	6%
	5%
	5%
	4%
	3%
	0%
	Males
	9%
	8%
	6%
	5%
	5%
	4%
	3%
	0%

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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### 8. Employee benefit obligations (continued)

#### Other assumptions

Assumed healthcare cost trends rates have a significant effect on the amounts recognised in surplus or deficit. The level of benefits receivable and the contributions payable would remain unchanged, with the exception of allowing for inflationary adjustment.

	One percentage point increase	One percentage point decrease
Effect on the aggregate of the service cost and interest cost	13 498 000	15 707 000
Effect on defined benefit obligation	98 935 000	130 798 000

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

	2021 R	2020 R	2019 R	2018 R	2017 R
Defined benefit obligation	(113 131 000)	(103 009 000)	122 909 524	(125 014 779)	(115 365 915)
Surplus (deficit)	13 608 920	16 150 095	16 550 943	4 010 777	20 685 890
Experience adjustments on plan liabilities	(10 647 000)	(10 669 000)	482 000	4 338 000	(790 000)

### 9. Inventories

Water for distribution	1 011 528	1 012 128
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#### Reconciliation of Water

Opening balance	1 012 727	918 958
Additions	237 850 727	256 413 602
Issued (expensed)	(237 851 926)	(256 319 833)
	<b>1 011 528</b>	<b>1 012 727</b>

### 10. Receivables from exchange transactions

Other receivables	52 582	30 429
Salary advances	28 081	-
	<b>80 663</b>	<b>30 429</b>

#### Credit quality of trade and other receivables

The credit quality of trade and other receivables 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:

#### Reconciliation of provision for impairment of receivables from exchange transactions

### 11. Other receivables from non-exchange transactions

Fines	91 409 539	20 158 776
Less: Provision for debt impairment	(82 268 586)	(17 538 135)
	<b>9 140 953</b>	<b>2 620 641</b>

#### Credit quality of other receivables from non-exchange transactions

The credit quality of other receivables from non-exchange transactions 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:

### 12. VAT receivable

VAT	77 592 113	49 520 718
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# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>13. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	995 857 152	645 204 506
Electricity	115 217 072	93 998 475
Water	820 488 127	707 992 293
Sewerage	187 039 329	153 063 031
Refuse	251 489 161	212 343 066
Other	1 007 636 190	855 419 323
	<b>3 377 727 031</b>	<b>2 668 020 694</b>
<b>Less: Allowance for impairment</b>		
Rates	(924 164 584)	(437 492 359)
Electricity	(88 425 577)	(77 364 253)
Water	(779 834 625)	(668 945 481)
Sewerage	(170 657 978)	(145 643 132)
Refuse	(219 510 911)	(193 168 049)
Other	(954 999 759)	(723 697 770)
	<b>(3 137 593 434)</b>	<b>(2 246 311 044)</b>
<b>Net balance</b>		
Rates	71 692 568	207 712 147
Electricity	26 791 495	16 634 222
Water	40 653 502	39 046 812
Sewerage	16 381 351	7 419 899
Refuse	31 978 250	19 175 017
Other	52 636 431	131 721 553
	<b>240 133 597</b>	<b>421 709 650</b>
<b>Included in above is receivables from exchange transactions</b>		
Electricity	26 791 495	16 634 222
Water	40 653 502	39 046 812
Sewerage	16 381 350	7 419 899
Refuse	31 978 250	19 175 017
Other	43 314 163	131 721 553
	<b>159 118 760</b>	<b>213 997 503</b>
<b>Included in above is receivables from non-exchange transactions (taxes and transfers)</b>		
Rates	81 014 837	207 712 147
<b>Net balance</b>	<b>240 133 597</b>	<b>421 709 650</b>
<b>Rates</b>		
Current (0 -30 days)	35 692 935	31 513 406
31 - 60 days	38 376 213	36 749 642
61 - 90 days	36 031 301	33 020 593
91 - 120 days	36 291 171	32 573 325
121 - 365 days	127 419 830	32 317 963
> 365 days	722 045 702	479 029 578
	<b>995 857 152</b>	<b>645 204 507</b>

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>13. Consumer debtors (continued)</b>		
<b>Other</b>		
Current (0 -30 days)	95 728 264	116 465 787
31 - 60 days	59 477 179	49 747 861
61 - 90 days	44 710 715	44 107 944
91 - 120 days	42 417 611	43 569 334
121 - 365 days	303 236 745	43 751 922
> 365 days	1 718 341 556	1 725 173 339
	<b>2 263 912 070</b>	<b>2 022 816 187</b>
<b>Summary of debtors by customer classification</b>		
<b>Consumers/Households</b>		
Current (0 -30 days)	21 158 730	75 758 711
31 - 60 days	20 862 230	37 868 148
61 - 90 days	20 769 397	32 891 225
91 - 120 days	19 795 616	33 391 673
121 - 365 days	120 782 056	32 385 939
> 365 days	684 431 651	1 152 559 236
	887 799 680	1 364 854 932
Less: Allowance for impairment	(1 360 804 825)	(1 231 260 004)
	<b>(473 005 145)</b>	<b>133 594 928</b>
<b>Industrial/Commercial</b>		
Current (0 -30 days)	64 708 629	73 800 301
31 - 60 days	38 279 007	46 908 420
61 - 90 days	37 512 798	42 709 199
91 - 120 days	46 237 726	40 498 957
121 - 365 days	141 051 360	41 983 723
> 365 days	799 291 039	1 022 104 566
	1 127 080 559	1 268 005 166
Less: Allowance for impairment	(743 924 381)	(1 014 824 083)
	<b>383 156 178</b>	<b>253 181 083</b>
<b>National and provincial government</b>		
Current (0 -30 days)	4 029 428	7 013 563
31 - 60 days	1 185 174	1 698 372
61 - 90 days	687 655	1 505 383
91 - 120 days	1 732 395	2 229 368
121 - 365 days	2 682 458	1 618 735
> 365 days	15 200 594	21 095 174
	25 517 704	35 160 595
Less: Allowance for impairment	(64 103)	(226 956)
	<b>25 453 601</b>	<b>34 933 639</b>
<b>Total</b>		
Current (0 -30 days)	89 896 786	156 572 575
31 - 60 days	60 326 410	86 474 940
61 - 90 days	58 969 850	77 105 806
91 - 120 days	67 765 737	76 119 998
121 - 365 days	264 515 874	75 988 397
> 365 days	2 836 252 374	2 195 758 977
	3 377 727 031	2 668 020 693
Less: Allowance for impairment	(3 137 593 434)	(2 246 311 043)
	<b>240 133 597</b>	<b>421 709 650</b>



# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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### 13. Consumer debtors (continued)

#### Reconciliation of allowance for impairment

Balance at beginning of the year	(2 246 311 044)	(1 676 422 308)
Contributions to allowance	(972 640 110)	(684 630 910)
Debt impairment written off against allowance	81 357 720	114 742 174
	<b>(3 137 593 434)</b>	<b>(2 246 311 044)</b>

#### Fair value of consumer debtors

The fair value of consumer debtors approximates their carrying amounts.

#### Consumer debtors past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2021, R - (2020: R 156 036 426) were past due but not impaired.

#### Consumer debtors impaired

As of 30 June 2021, consumer debtors of R0 - (2020: R 114 742 174) were impaired and provided for.

### 14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand (Credit grade: High)	48 123	20 782
Call deposits & short-term investments (Credit grade: High)	70 482 070	179 123 401
VBS Mutual bank	51 005 929	51 005 929
Impairment - VBS Mutual Bank	(51 005 929)	(51 005 929)
	<b>70 530 193</b>	<b>179 144 183</b>

#### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2021	30 June 2020	30 June 2019	30 June 2021	30 June 2020	30 June 2019
NEDBANK Ltd - Current account No. 1454087331	681 326	3 348 443	1 865 211	(7 591 166)	2 456 893	1 990 045
FIRST NATIONAL BANK - Current Account 62796852624	2 142 576	7 542 170	3 222 851	7 088 303	8 072 436	(9 141 443)
FNB Fleet Deposit	250 000	250 000	250 000	250 000	250 000	250 000
FIRST NATIONAL BANK - Traffic Fines	10 332	(2 501)	-	363 349	(2 501)	(8 701)
NEDBANK Ltd - Traffic Fines	-	(1 200)	-	-	(1 200)	(5 920)
NEDBANK Ltd - Savings account No. 7492501323/5	10 700 757	20 220 009	912 843	30 700 757	20 220 009	912 843
FIRST NATIONAL BANK - Current Account 62797400737	67 468 526	148 127 764	121 253 906	39 670 827	148 127 765	121 253 907
ABSA	-	-	-	32 341	-	-
Cash on hand	-	-	-	15 782	20 782	20 782
<b>Total</b>	<b>81 253 517</b>	<b>179 484 685</b>	<b>127 504 811</b>	<b>70 530 193</b>	<b>179 144 184</b>	<b>115 271 513</b>

#### VBS Mutual Bank

An amount of R50 million was invested with VBS Mutual Bank. The municipality received a notice on the 11th March 2018 that the bank was placed under curatorship by the South African Reserve Bank. The curatorship detailed that all deposits and interest payments have been suspended. At its meeting held on the 28 March 2018, the Council resolved to request the MEC: Finance of Gauteng to institute a forensic investigation regarding the investment of Municipal funds with VBS Bank. The report known as the Deloitte report was received and Council resolved at a meeting held on 01 March 2019 to implement the recommendations of the report. The municipality is implementing the recommendations in the Deloitte report to the fullest extent. VBS Mutual bank was placed under liquidation on the 13 November 2018. The municipality submitted a claim to the liquidator on the amount invested with VBS Mutual bank. The case is handed to South african Crime directorate.

# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

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<b>15. Accumulated surplus</b>		
<b>16. Other financial liabilities</b>		
<b>At amortised cost</b>		
Nedbank	8 834 140	33 178 328
The Nedbank loan with an interest rate 11.22% will redeem 30 May 2025		
DBSA	34 675 338	17 421 966
The Development Bank of Southern Africa loan with an interest rate of 5% will redeem 30 September 2027		
	<b>43 509 478</b>	<b>50 600 294</b>
<b>Total other financial liabilities</b>	<b>43 509 478</b>	<b>50 600 294</b>
At amortised Cost, Nedbank R26 171 809.00 + DBSA R17 337 669		
<b>Non-current liabilities</b>		
At amortised cost	35 748 373	43 593 776
<b>Current liabilities</b>		
At amortised cost	7 761 105	7 006 518
<b>17. Finance lease obligations</b>		
<b>Minimum lease payments due</b>		
- within one year	84 686	102 600
- in second to fifth year inclusive	-	76 950
	84 686	179 550
less: future finance charges	-	(25 668)
<b>Present value of minimum lease payments</b>	<b>84 686</b>	<b>153 882</b>
<b>Present value of minimum lease payments due</b>		
- within one year	84 686	82 217
- in second to fifth year inclusive	-	71 665
	<b>84 686</b>	<b>153 882</b>
Non-current liabilities	-	71 664
Current liabilities	84 686	82 217
	<b>84 686</b>	<b>153 881</b>

The lease terms average from two to five years and the effective borrowing rate for photocopier machines, is as determined by the Standard Interest Rate to be levied on debt owing to the state. Obligations under finance leases are secured by the lessor's title to the leased asset.

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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### 18. Unspent conditional grants, receipts and donations

Unspent conditional grants, receipts and donations comprises of:

#### Unspent conditional grants and receipts

MIG Grants	5 476 597	44 406 925
Water Service Infrastructure Grants (WSIG)	7 056 701	46 780 192
WRDM	755 232	612 648
Department of Mineral Energy	3 184 549	3 184 549
Department of Sports, arts, culture and recreation	6 479 923	6 584 819
EPWP (DPW)	(18 532)	290 305
Human Settlement Grant	2 687 170	6 570 925
Provincial Disaster Fund	4 219	4 219
Department of Cooperative Governance and Traditional Affairs	-	163 923
FMG & MSIG	686 182	3 607
Municipal Disaster Grant (Covid)	-	596 000
Other grants and donations	850 995	7 679 239
	<b>27 163 036</b>	<b>116 877 351</b>

#### Movement during the year

Balance at the beginning of the year	116 877 351	112 937 376
Additions during the year	89 714 315	184 703 050
Income recognition during the year	(179 428 630)	(180 763 075)
	<b>27 163 036</b>	<b>116 877 351</b>

These amounts are invested in a ring-fenced accounts until utilised. The over spending is on EPWP, Department of Cooperative Governance and Traditional Affairs and Human Settlement Grant

# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

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### 19. Provisions

#### Reconciliation of provisions - 2021

	Opening Balance	Additions	Utilised during the year	Total
Provision for rehabilitation of landfill sites	13 477 007	43 053	-	13 520 060
Performance bonus	4 850 439	-	(4 850 439)	-
Leave	28 144 729	-	(346 149)	27 798 580
Section 56 Salary Adjustments	630 945	-	-	630 945
Long service awards	46 093 000	6 022 000	(47 597 000)	4 518 000
Post retirement benefit	-	151 256 954	-	151 256 954
	<b>93 196 120</b>	<b>157 322 007</b>	<b>(52 793 588)</b>	<b>197 724 539</b>

#### Reconciliation of provisions - 2020

	Opening Balance	Additions	Utilised during the year	Total
Provision for rehabilitation of landfill sites	12 579 586	897 421	-	13 477 007
Performance bonus	3 648 054	1 202 385	-	4 850 439
Leave	23 107 909	15 192 316	(10 155 496)	28 144 729
Section 56 Salary Adjustments	630 945	-	-	630 945
Long service awards	43 402 946	5 232 121	(2 542 067)	46 093 000
	<b>83 369 440</b>	<b>22 524 243</b>	<b>(12 697 563)</b>	<b>93 196 120</b>

Non-current liabilities	112 014 559	40 717 669
Current liabilities	85 709 980	52 478 451
	<b>197 724 539</b>	<b>93 196 120</b>

#### Provision for rehabilitation of landfill sites

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is calculated as the present value of the future obligation, discounted at the prevailing prime interest rate, over the estimate useful life of the landfill site. The calculation was done internally.

#### Performance bonus

Performance bonuses are paid one year in arrears as the assessment of eligible employees has not taken place at the reporting date and no present obligation exists.

#### Long service awards

An actuarial valuation has been performed of Merafong Municipality's unfunded liability in respect of the entitlement of employees to Long Service Awards. The unfunded liability in respect of past service has been estimated to be R 30,315,000

### 20. Payables from exchange transactions

Trade payables	952 139 459	725 366 056
Payments received in advance	25 960 189	23 765 148
Outstanding cheques	(16 581 534)	8 173 007
Retentions	32 845 775	25 974 860
Deposits received	1 070 391	1 070 391
Accruals and sundry creditors	5 745 346	5 224 773
	<b>1 001 179 626</b>	<b>789 574 235</b>

#### Fair value of trade and other payables

The fair value of trade and other payables approximates their carrying amounts.

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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### 21. Other financial instruments disclosure

#### Financial instruments in Statement of financial performance

##### At amortised cost

Interest earned - external investment	4 778 855	8 339 486
Interest earned - outstanding receivables	142 532 378	148 639 919
Debt Impairment	952 414 700	(559 293 399)
Finance costs	(51 526 939)	(52 667 196)
	<b>(753 576 528)</b>	<b>768 940 000</b>

### 22. Consumer deposits

Electricity and Water and Sundries	23 411 543	18 204 521
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### 23. Financial liabilities by category

The accounting policies for financial instruments have been applied to the line items below:

##### At amortised cost

Payables	906 467 026	847 622 583
Finance lease obligation	84 686	153 881
Long-term liabilities	43 509 478	50 600 294
Consumer deposits	23 411 543	18 204 521
Unspent conditional grants and receipts	21 732 743	116 877 351
	<b>995 205 476</b>	<b>1 033 458 630</b>

### 24. Revenue

Service charges	756 328 780	721 400 549
Rental of facilities and equipment	518 707	1 121 176
Interest earned - outstanding receivables	142 532 378	148 639 919
Licences and permits	14 767 481	15 164 461
Other income	2 866 417	3 314 090
Interest earned - external investment	4 848 321	8 339 486
Other income	541 111 352	509 751 938
Property rates - penalties imposed and collection charges	7 581 738	3 302 568
Surcharges and Taxes	24 852 194	-
Government grants & subsidies	418 518 104	382 949 246
Public contributions and donations	150 822	855 421
Fines	47 436 316	23 833 286
	<b>1 961 512 610</b>	<b>1 818 672 140</b>

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

Service charges	756 328 780	721 400 549
Rental of facilities and equipment	518 707	1 121 176
Interest earned - outstanding receivables	142 532 378	148 639 919
Interest earned - outstanding receivables	14 767 481	15 164 461
Other income	2 866 417	3 314 090
Interest earned - external investment	4 848 321	8 339 486
	<b>921 862 084</b>	<b>897 979 681</b>

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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### 24. Revenue (continued)

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

#### Taxation revenue

Property rates	541 111 352	509 751 938
Property rates - penalties imposed and collection charges	7 581 738	3 302 568
Surcharges and Taxes	24 852 194	-

#### Transfer revenue

Government grants & subsidies	418 518 104	382 949 246
Fines	150 822	855 421
Fines	47 436 316	23 833 286

<b>1 039 650 526</b>	<b>920 692 459</b>
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### 25. Property rates

#### Rates received

Residential	563 742 257	564 453 506
Less: Income forgone	(22 630 905)	(54 701 568)
	<u>541 111 352</u>	<u>509 751 938</u>
Property rates - penalties imposed and collection charges	7 581 738	3 302 568
	<b>548 693 090</b>	<b>513 054 506</b>

#### Valuations R'000

Residential	7 662 936	6 773 000
Commercial	10 351 552	8 662 179
State	32 920	25 132
Municipal	470 003	137 300
	<b>18 517 411</b>	<b>15 597 611</b>

Valuations on land and buildings are performed every four years. The last valuation came into effect on July 2019 to June 2024. Interim valuations are processed on a quarterly basis to take into account changes in individual property values due to alterations and subdivisions. A general rate of R0.0163 (2020: R0.0157) is applied to property valuations for residential properties, R0.0395 (2020: R0.0380 for businesses and R0.0476 (2020: R0.0449) for mines to determine assessment rates. Rates are levied on a monthly basis on property owners. Interest at the Prime interest rate is levied on outstanding rates.

### 26. Service charges

Sale of electricity	260 665 874	248 709 722
Sale of water	350 513 071	338 275 119
Sewerage and sanitation charges	66 899 835	61 645 983
Refuse removal	77 105 920	71 550 086
Rent subsidised housing	1 144 080	1 219 639
	<b>756 328 780</b>	<b>721 400 549</b>

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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### 27. Government grants and subsidies

#### Operating grants

Equitable share and other government grants	408 914 439	382 949 246
Government grant (operating) 9	9 466 421	-
	<u>418 380 860</u>	<u>382 949 246</u>
<b>Capital grants</b>		
Government grant (capital) 1	137 244	-
	<u>137 244</u>	<u>-</u>
	<u><b>418 518 104</b></u>	<u><b>382 949 246</b></u>

#### Equitable Share

The amount received and spent for equitable share was R252 667 486 (2020: R204,067,903).

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

All registered indigents receive a monthly subsidy 2021 of R603.13 (2020: R419.344), which is funded from this grant.

#### MIG Grant

Balance unspent at beginning of year	34 406 925	18 578 097
	-	(18 578 097)
Current-year receipts	51 860 000	66 275 000
Conditions met - transferred to revenue	(46 383 403)	(31 868 075)
Rejected roll-over	(34 406 925)	-
	<u><b>5 476 597</b></u>	<u><b>34 406 925</b></u>

Roll-over rejection of R34 406 905 ) and was offset in the current year of audit through equitable share.

National Treasury did not approve the Roll-over application from Council. Council forfeited R94 million in 2020/21 and it was offset from Equitable share

#### Water Services Infrastructure Grant

Balance unspent at beginning of year	56 780 192	34 908 595
Current-year receipts	54 190 000	35 000 000
Conditions met - transferred to revenue	(47 133 299)	-
Roll-over rejection	(56 780 192)	(13 128 403)
	<u><b>7 056 701</b></u>	<u><b>56 780 192</b></u>

The roll-over was rejected.

#### Provincial Disaster Fund

Balance unspent at beginning of year	4 219	7 881 014
Conditions met - transferred to revenue	-	(7 876 795)
	<u><b>4 219</b></u>	<u><b>4 219</b></u>

#### Human Settlement Grant

Balance unspent at beginning of year	6 570 925	34 913 688
Approved roll-over	9 509 864	-
Current-year receipts	35 000 000	57 634 048
Conditions met - transferred to revenue	(48 393 619)	(85 976 811)
	<u><b>2 687 170</b></u>	<u><b>6 570 925</b></u>

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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### 27. Government grants and subsidies (continued)

The roll-over grant of R16 080 790 was approved in the current year of audit.

#### West Rand District Municipality

Balance unspent at beginning of year	612 648	557 031
Current-year receipts	3 250 551	1 880 544
Conditions met, expenditure payments	(2 495 320)	(1 824 927)
Rejected Roll-over	(612 647)	-
	<b>755 232</b>	<b>612 648</b>

The amount of R612 648 was paid back due to rejection of the application of roll-over grant..

#### Department of Mineral Resources and Energy

Balance unspent at beginning of year	3 184 549	(1 287 090)
Current-year receipts	24 773 000	15 600 000
Conditions met - transferred to revenue	(24 773 000)	(11 128 361)
	<b>3 184 549</b>	<b>3 184 549</b>

#### Department of Sports, arts, culture and recreation

Balance unspent at beginning of year	6 584 819	-
Current-year receipts	17 200 000	20 700 000
Conditions met - transferred to revenue	(17 304 896)	(14 115 181)
	<b>6 479 923</b>	<b>6 584 819</b>

#### EPWP

Balance unspent at beginning of year	290 305	-
Current-year receipts	1 000 000	1 000 000
Conditions met - transferred to revenue	(1 018 532)	(709 695)
Rejected Roll-over	(290 305)	-
	<b>(18 532)</b>	<b>290 305</b>

The application of roll-over of R290 305 was rejected.

#### Financial Management Grant (FMG)

Balance unspent at beginning of year	3 607	-
Current-year receipts	2 500 000	2 165 000
Conditions met - transferred to revenue	(1 817 425)	(2 161 393)
	<b>686 182</b>	<b>3 607</b>

#### Department of Water and Sanitation: Mining Town

Balance unspent at beginning of year	-	11 137 359
Conditions met - transferred to revenue	35 000 000	(11 137 359)
Roll Over	16 080 789	-
Expenditure for the year	(51 080 789)	-
	<b>-</b>	<b>-</b>

#### Department of Cooperative Governance and Traditional Affairs - EPWP Incentive

Balance unspent at beginning of year	163 923	-
Current-year receipts	500 000	1 000 000
Conditions met - transferred to revenue	(500 000)	(836 077)



# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>27. Government grants and subsidies (continued)</b>		
Rejected roll-over	(163 923)	-
	<u>-</u>	<u>163 923</u>
The municipality over-spent by an amount of R222 026.		
<b>Municipal Disaster Grant (COVID)</b>		
Current-year receipts	4 385 000	596 000
Conditions met - transferred to revenue	(4 385 000)	(596 000)
	<u>-</u>	<u>-</u>
<b>28. Public contributions and donations</b>		
Public contributions and donations 1	<u>150 822</u>	<u>855 421</u>
Conditions still to be met - remain liabilities (see note 18)		
Provide explanations of conditions still to be met and other relevant information		
<b>29. Other revenue</b>		
Other income - (rollup)	<u>2 866 417</u>	<u>3 314 090</u>
<b>30. Other income</b>		
Building plan fees	18 802	3 216
Certificates and levies	874 905	475 650
Claims	(5 551)	47 335
Commission and other recoveries	179 343	249 347
Dumping	62	-
Fees and permits	632 860	431 614
Other income	1 165 996	2 106 928
	<u>2 866 417</u>	<u>3 314 090</u>
<b>31. Public contributions and donations</b>		
<b>Public contributions and donations</b>		
Donations	<u>150 822</u>	<u>855 421</u>
These contributions and donations were used for social upliftment. Other than the unspent amount, the conditions of these were met. No funds have been withheld. The write-off of R7 679 237 is in line with the auditing finding of 2019/20 that social responsibility is not a grant but a donation. The contributions for the social responsibility are now treated as general expenditure		
<b>Reconciliation of unspent public contributions and donations</b>		
Balance unspent at the beginning of the year	7 679 237	6 248 682
Current year receipts	3 762 107	1 430 555
Conditions met - transferred to revenue	(2 911 112)	-
Social responsibility Write-off	(7 679 237)	-
	<u>850 995</u>	<u>7 679 237</u>

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>32. General expenses</b>		
Advertising	425 687	309 851
Bank charges	1 261 413	1 355 616
Cleaning	235 674	47 403
Conferences and seminars	-	20 803
Consumables	1 315 735	932 891
Electricity	7 526 147	11 614 351
Entertainment	1 074	-
Forensic audits	220 487	-
Fuel and oil	15 623 512	13 038 915
Hire	1 620 699	1 761 121
IT expenses	4 288 027	3 809 413
Legal fees	543 288	56 000
Licences: Motor vehicle licence and registration	184 497	386 679
Other expenses	1 059 690	9 320 682
Printing and stationery	578 900	627 132
Professional Bodies, Membership and Subscription	6 925 121	4 032 590
Refuse	130 645	668 979
Repairs and maintenance	5 833 788	4 763 831
Sewerage	138 474	116 097
Software expenses	179 247	-
System Access and Information Fees	1 083 303	2 027 570
Telephone and fax	1 856 348	2 068 502
Travel - local	47 359	44 646
Water	240 514 354	209 722
	<b>291 593 469</b>	<b>57 212 794</b>

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>33. Employee related costs</b>		
Housing benefits and allowances	4 454 890	4 013 267
Leave pay provision charge	9 439 685	12 650 247
Long-service awards	2 870 178	2 542 068
Performance bonus	651 667	1 202 384
Medical aid - company contributions	44 633 696	16 910 528
Medical past service cost	2 183 126	2 133 545
Overtime payments	27 264 904	24 237 112
Pension	28 078 072	27 312 564
Long service bonus	7 140	1 643
Provident fund	-	19
SALGBC	208 400	107 714
Salaries and wages	221 633 554	213 641 185
Travel, motor car, accommodation, subsistence and other allowances	8 852 637	9 816 641
UIF	1 453 306	1 463 464
WCA	3 960 668	720 819
	<b>355 691 923</b>	<b>316 753 200</b>

### Remuneration of Municipal Manager

Annual Remuneration	146 767	1 288 259
Travel, motor car, accommodation, subsistence and other allowances	27 669	165 900
Contributions to UIF, Medical and Pension Funds	44 717	268 415
	<b>219 153</b>	<b>1 722 574</b>

Mokoena Morakane the Municipal Manager, was suspended, her case was finalised as end of August 2020.

### Remuneration of Chief Financial Officer

Annual Remuneration	-	493 591
Travel, motor car, accommodation, subsistence and other allowances	-	76 733
Contributions to UIF, Medical and Pension Funds	-	135 966
	-	<b>706 290</b>

In 2020/21 financial year there was no appointment of the Chief Financial Officer.

### Remuneration of Chief Operating Officer

Annual Remuneration	182 732	1 358 060
Travel, motor car, accommodation, subsistence and other allowances	57 653	79 991
Contributions to UIF, Medical and Pension Funds	42 735	275 912
	<b>283 120</b>	<b>1 713 963</b>

Nieuwoudt Casper, Wilhelmus, Albertus took an early retirement as end of 31st August 2020

### Remuneration of executive directors

2021	Infrastructure Development Moyo Nontyatyambo	Corporate Services Bredenkamp Heindrich	Community Services Mantjane Sekgatlane, Ezekiel	Economic Development & Planning Peu:Lerato, Catherine	Total
Annual remuneration	1 365 733	1 252 830	2 013 794	1 624 461	6 256 818
Travel, motor car, accommodation, subsistence and other allowances	407 661	296 008	306 191	464 565	1 474 425
Performance & other bonuses	151 071	151 071	203 204	151 071	656 417
Contributions to UIF, Medical and Pension Funds	114 755	411 338	557 430	44 955	1 128 478

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 33. Employee related costs (continued)

	2 039 220	2 111 247	3 080 619	2 285 052	9 516 138
<b>2020</b>	Infrastructure Development Mdletshe, Siyethemba, Lovemore	Corporate Services Brede- nkamp Heindrich	Community Services Mantje- ne Sekgatlane, Ezekiel	Economic Development & Planning Pretoria, Catherin e	Total
Annual remuneration	696 724	695 730	1 026 177	824 205	3 242 836
Travel, motor car, accommodation, subsistence and other allowances	205 524	166 321	152 747	232 156	756 748
Contributions to UIF, Medical and Pension Funds	179 832	222 777	279 663	22 719	704 991
	<b>1 082 080</b>	<b>1 084 828</b>	<b>1 458 587</b>	<b>1 079 080</b>	<b>4 704 575</b>

Refer to Related Party note for related party relationships (see note 50).

### 34. Remuneration of councillors

Executive Mayor	903 870	903 870
Executive Committee Members	9 781 961	7 474 738
Speaker	731 974	731 974
Councillors	11 172 099	13 744 293
	<b>22 589 904</b>	<b>22 854 875</b>

There are 10 (2020:10 ) Executive Committee Members and 43 (2021:43) other Councillors.

### In-kind benefits

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

They were Performance Audit Committee and Audit Committee members .

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

The Executive Mayor has full-time VIP protection personnel.

The Speaker has full-time VIP protection personnel.

### 35. Debt impairment

Receivables from exchange transactions	490 860 501	540 702 406
Other receivables from non-exchange transactions	442 719 364	17 538 135
	<b>933 579 865</b>	<b>558 240 541</b>

### 36. Investment revenue

<b>Interest revenue</b>		
Bank and investments	4 848 321	8 339 486

### 37. Depreciation and amortisation

Property, plant and equipment	98 369 519	75 984 094
Intangible assets	331 228	857 991
Other asset 1	(610 113)	-
	<b>98 090 634</b>	<b>76 842 085</b>

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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### 38. Impairment of assets

#### Impairments

Property, plant and equipment	40 386 269	54 743 899
Describe the events and circumstances that led to the recognition or reversal of the impairment loss. The recoverable amount or [recoverable service amount] of the asset was based on its fair value less costs to sell or [its value in use.]		

The impairment losses for 2019/20 of R54 743 899 was in respect of items of property and the impairment for 2020/21 of R40 386 269 was in respect of Property, plant and equipment in WIP

### 39. Finance costs

External loans	4 183 675	4 875 456
Finance leases	69 196	53 112
Interest: Rehabilitation of landfill sites	1 154 903	1 117 067
Interest: Arrear accounts	48 754 240	46 621 561
	<b>54 162 014</b>	<b>52 667 196</b>

### 40. Rental of facilities and equipment

#### Facilities and equipment

Rental of facilities	415 091	1 035 647
Rental of equipment	103 616	85 529
	<b>518 707</b>	<b>1 121 176</b>

### 41. Licences and permits (exchange)

Angling/Fishing	14 767 481	15 164 461
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### 42. Fines, Penalties and Forfeits

Building Fines	40 000	(29 404)
Motor Vehicle Licence Penalties	-	(427 603)
Tender Withdrawal Penalties	439 640	267 768
Fines, Penalties and Forfeits 1	46 956 676	24 022 525
	<b>47 436 316</b>	<b>23 833 286</b>

There was a correction of prior error in the 2020 prior error which resulted in a deficit in fines for that year.

### 43. Surcharges and Taxes

Surcharges	24 852 194	-
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# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
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### 44. Contracted services

#### Presented previously

Fleet Services	22 551 503	24 731 389
Operating Leases	4 948 990	3 047 439
Specialist Services	31 723 689	31 779 051
Other Contractors	28 651 093	64 373 975
	<b>87 875 275</b>	<b>123 931 854</b>

### 45. Grants and subsidies paid

#### Other subsidies

Housing top structures	-	5 493 927
	<b>-</b>	<b>5 493 927</b>

The grant for mining towns is in respect of top structure for mining towns and dolomitic towns and expenditure is now treated as general expenditure

### 46. Bulk purchases

Electricity - Eskom	410 306 284	302 897 710
Water	531 651	234 768 645
	<b>410 837 935</b>	<b>537 666 355</b>

Water is now treated as inventory in terms of the requirements of mSCOA. The transactions for inventory are done in general expenses.

### 47. Cash generated from operations

(Deficit) surplus	(330 160 601)	10 991 796
<b>Adjustments for:</b>		
Depreciation and amortisation	95 045 771	78 168 487
(Gain) on sale of assets and liabilities	(89 213)	(52 783)
Impairment loss - Other	13 290 739	13 290 739
Debt impairment	933 579 865	558 240 541
Movements in retirement benefit assets and liabilities	10 122 000	(19 900 524)
Movements in provisions	104 528 419	9 826 680
Other	(144 036 315)	137 085 497
<b>Other non-cash items</b>		
Inventories	600	(93 170)
Receivables from exchange transactions	(50 234)	1 113 828
Consumer debtors	(752 460 250)	(762 752 757)
Other receivables from non-exchange transactions	2 620 641	5 973 659
Payables from exchange transactions	211 605 390	172 520 368
VAT	(28 071 395)	(5 971 308)
Unspent conditional grants, receipts and donations	(89 714 315)	3 939 975
Consumer deposits	5 207 022	2 419 186
	<b>31 418 124</b>	<b>204 800 214</b>

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand	2021	2020
<b>48. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
Property, plant and equipment - Infrastructure	101 668 877	284 836 253
Other financial assets	84 686	2 006 917
	<b>101 753 563</b>	<b>286 843 170</b>
<b>This expenditure will be financed from:</b>		
Government grants	101 668 877	284 836 253
Own resources	84 686	2 006 917
	<b>101 753 563</b>	<b>286 843 170</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	101 753 563	286 843 170

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses, rights issue of shares, issue of debentures, mortgage facilities, existing cash resources, funds internally generated, etc.

## 49. Contingencies

Appeals against valuations mining properties claimants: AngloGold Ashanti, Harmonygold, Goldfields	302 000 000	302 000 000
Appeals court application for the provision of water to the mines- Claimant: AngloGoldAshanti	10 000 000	10 000 000
Combined Summons: Claim for Outstanding Payment for VAT claim submitted	693 279	693 279
Dispute SALGBC: Payment of acting allowances	-	600 000
Dispute SALGBC: Unfair dismissal GPD071910	-	100 000
Dispute SALGBC: Unfair dismissal GPD071906	-	100 000
Notice of Motion: Labour Court: Application to make bargaining council award an order of court	-	3 500 000
Review application on SALGBC award: unfair labour practice: TK Poo and others	-	450 000
Review application: SALGBC Award DM Hobe	2 500 000	2 300 000
	<b>315 193 279</b>	<b>319 743 279</b>

## 50. Related parties

### Relationships

Acting Municipal Manager (Key management)	Mdletshe Siyethemba, Lovemore
Acting Chief Financial Officer (Key management)	Magongwa Ramogale, Julia
Chief Operating Officer (Key management)	Nieuwoudt Casper, Wilhelmus, Albertus
Executive Director (Key management)	Mantjane Sekgatlane, Ezekiel
Executive Director (Key management)	Bredenkamp, Heinrich
Executive Director (Key management)	Peu Lerato Catherine
Acting Executive Director (Key management)	Moyo Nontyatyambo

### Contracts were awarded to family members of municipal officials of the municipality during the year

Name	Capacity	Amount
S Ndolela	Senior Clerk – Supply chain	R586 289.00 ( R59 175 was incurred in 2020/2021).

Contracts were awarded to family members of municipal officials of the municipality during the year

Name	Capacity	Amount
MB Lephuting	Councillor	R16 200.00

The service provider was married to the councillor and later divorced

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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2020

### 51. Change in estimate

#### Property, plant and equipment

There was a change in useful lives review which had the following impact:

Depreciation expense on affected assets before remaining useful lives review:	2019: R874,110
Depreciation expense on affected assets after remaining useful lives review:	2019: R324,748
Future reduction in depreciation due to review:	2019: R549,362

### 52. Prior period errors

#### Balance sheet adjustments

	Amount	Reason
Current Liabilities	8 979 458.96	Correcting incorrect transactions 2020
Accumulated Depreciation	-5 955 450.22	Backlog depreciation on PPE
Accumulated Funds	625 704.45	Errors relating to periods prior to 2019/20 financial period
Provisions	15 394 032.92	Correcting provisions due to error in calculation
Current Receivables	-1 520 887.70	Correcting incorrect transaction on traffic fines
PPE Work in progress	-76 995 137.34	Operational cost previously included as PPE
Inventory	-600.00	Water inventory correction
Vat Receivable	-2 549 493.04	Vat correction due to VAT Transferred to Vat Control account

#### Income Statement adjustments

Operational cost	-529 668.98	Correction of allocation to Landfill provision
Agency fees	-5 997 788.01	Transaction relating to agency fees corrected
Debt impairment	-1 052 858.00	Correction on provision for debt impairment
Contractors & Consultants	77 422 739.91	Operational cost previously included in PPE work in progress
Depreciation	3 606 381.83	Correction to depreciation not included as expense
Interest paid	-11 426 956.52	Correction relating to interest recalculated on provisions
Service charges	521.74	Correction on service charges

### 53. Comparative figures

Certain comparative figures have been reclassified and/or renamed in order for the item/transactions to be more in-line with the benchmark presentation and disclosure according to the GRAP Reporting Framework.

### 54. Risk management

#### Liquidity risk

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

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

At 30 June 2020	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	82 217	71 664	-	-
Trade and other payables	847 622 583	-	-	-



# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

Figures in Rand

### 54. Risk management (continued)

#### Interest rate risk

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk. Municipality policy is to maintain approximately 60% of its borrowings in fixed rate instruments.

At year end, financial instruments exposed to interest rate risk were as follows:

Call deposits  
Notice deposits  
Development Bank of South Africa loan

#### Credit risk

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

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

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

Financial instrument	2021	2020
First National Bank	83 728 880	179 213 648
Trade and other receivables	-	548 829 683
VBS Mutual Bank	50 422 333	50 422 333

### 55. Going concern

We draw attention to the fact that at 30 June 2021, the municipality had an accumulated surplus of R 2 091 616 976 and that the municipality's total assets exceeds its total liabilities by R 2 091 616 976.

### 56. Events after the reporting date

In the last 3 months of the financial year, the country was affected by Covid19 pandemic which resulted in the poor collection of revenue and low implementation of capital projects/service delivery. The Municipal Manager was suspended during the period under review. There were no subsequent event after the reporting date which requires disclosure.

### 57. Fruitless and wasteful expenditure

Opening balance	48 254 267	-
Fruitless and wasteful expenditure - Interest on arrear accounts	46 119 165	48 254 267
	<b>94 373 432</b>	<b>48 254 267</b>

The fruitless expenditure for 2020 were referred to MPAC but have not been finalised. The opening balance is R48 254 267 and the fruitless expenditure for 2021 is R46 119 165. The fruitless expenditure is due to interest charged on overdue accounts of Eskom, the interest is as a result of financial constraints that arise from low revenue collection. The Fruitless and Wasteful Expenditure are as follows:

- Eskom
- Office of the Auditor General
- Rand Water
- Telkom
- URU Joint Venture
- SARS (Interest/ Penalties)
- Municipal Councilors Pension Fund

# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

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### 58. Irregular expenditure

Opening balance	109 046 487	73 431 550
Add: Expenditure - current year	33 893 638	35 614 937
	<b>142 940 125</b>	<b>109 046 487</b>

Irregular expenditure was as follows:

Deviations	3 524 110.35
Motswako Office Solutions	25 983.88
Nashua – Journals	69 195.84
Nashua Vaal Document Management	3 508 720.35
Talis fleet	25 682 623.15
Various RFQ's	1 083 005.00

### 59. Additional disclosure in terms of Municipal Finance Management Act

#### Contributions to organised local government

Opening balance	9 237 235	6 204 645
Current year subscription	4 212 250	4 032 590
Amount paid - current year	(7 000 000)	(1 000 000)
	<b>6 449 485</b>	<b>9 237 235</b>

An amount of R2 000 000 was paid to WRDM and SALGA R 5 000 000, Covering prior and current debts.

#### Audit fees

Opening balance	7 451 929	6 494 561
Current year audit fee	4 621 160	8 003 206
Amount paid - current year	(9 436 678)	(7 045 838)
	<b>2 636 411</b>	<b>7 451 929</b>

#### PAYE and UIF

Current year payroll deductions	53 269 533	51 272 953
Amount paid - current year	(53 269 533)	(51 272 953)
	<b>-</b>	<b>-</b>

#### Pension and Medical Aid Deductions

Current year payroll deductions and council contributions	67 236 662	93 365 387
Amount paid - current year	(67 236 662)	(93 365 387)
	<b>-</b>	<b>-</b>

#### VAT

VAT receivable	70 023 078	54 814 165
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VAT output payables and VAT input receivables are shown in note .

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

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

## Notes to the Annual Financial Statements

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

#### Councillors' arrear consumer accounts

The Councillors accounts that were in arrears as at 30 June 2021 were as follows

30 June 2021	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Mosiane WT	9 414	14 120	23 534
Nkabinde MB	15 906	23 859	39 765
	<b>25 320</b>	<b>37 979</b>	<b>63 299</b>

### 60. Utilisation of Long-term liabilities reconciliation

Used to finance property, plant and equipment	26 157 211	50 600 293
	<b>26 157 211</b>	<b>50 600 293</b>

#### Long-term liabilities

Used to finance property, plant and equipment	26 157 211	50 600 293
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Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

### 61. 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.

#### The expenses incurred, as listed hereunder, have been approved/condoned

Emergencies	5 636 283	6 435 666
Impractical	3 147 380	1 583 941
	<b>8 783 663</b>	<b>8 019 607</b>

# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

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### 62. Segment information

#### Segment surplus or deficit, assets and liabilities

2021

	Community services	Economic development and planning	Infrastructure development	Shared services	Other	Not allocated	Total
<b>Revenue</b>							
External Revenue from non-exchange transactions	49 996 607	40 000	149 091 670	-	641 874 266	-	841 002 543
External Revenue from exchange transactions	92 491 516	2 052 730	676 848 968	726 889	1 060 054	-	773 180 157
Interest revenue	-	-	-	-	147 380 699	-	147 380 699
<b>Total segment revenue</b>	<b>142 488 123</b>	<b>2 092 730</b>	<b>825 940 638</b>	<b>726 889</b>	<b>790 315 019</b>	<b>-</b>	<b>1 761 563 399</b>
<b>Entity's revenue</b>							<b>1 761 563 399</b>
<b>Expenditure</b>							
Total segment expense	224 998 828	16 071 510	916 734 706	94 745 079	759 546 301	-	2 012 096 424
Depreciation and amortisation	5 276 690	197 556	93 848 075	1 460 715	927 999	-	101 711 035
Interest expense	1 154 903	-	-	3 036 000	50 372 036	-	54 562 939
<b>Total segment expenditure</b>	<b>231 430 421</b>	<b>16 269 066</b>	<b>1 010 582 781</b>	<b>99 241 794</b>	<b>810 846 336</b>	<b>-</b>	<b>2 168 370 398</b>
<b>Total segmental surplus/(deficit)</b>	<b>(88 942 29)</b>	<b>(14 176 33)</b>	<b>(184 642 14)</b>	<b>(98 514 90)</b>	<b>(20 531 31)</b>		<b>(406 806 999)</b>
<b>Assets</b>							
Segment assets	20 960 379	759 099	3 075 827 241	4 168 925	5 071 578	53 264 617	3 160 051 839
<b>Total assets as per Statement of financial Position</b>							<b>3 160 051 839</b>
<b>Liabilities</b>							
Segment liabilities	-	-	-	(60 972 876)	(4 518 000)	(1 966 538 346)	(2 032 029 222)
<b>Total liabilities as per Statement of financial Position</b>							<b>(2 032 029 222)</b>

## Notes to the Annual Financial Statements

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### 62. Segment information (continued)

#### Reportable Segments for the year ended 30 June 2021

For management purposes, the municipality is organised and operates in four key functional segments (or business units). To this end, management monitors the operating results of these segments for the purpose of making decisions about resource allocations and assessment of performance. Revenues and expenditures relating to these business units are allocated at a transactional level. Costs relating to the governance and administration of the municipality are not allocated to these functional segments.

The four key Segments comprise of:

- Community and public safety which includes community and social services, sport and recreation, public safety, health and housing services;
- Economic and environmental services which includes planning and development, road transport and environmental protection services;
- Trading services which includes energy sources, water management, waste water management and waste management services;

The grouping of these segments is consistent with the functional classification of government activities which considers the nature of the services, the beneficiaries of such services and the fees charged for the services rendered.

Management does monitor performance geographically but does not at present have reliable separate financial information for decision making purposes. Processes have been put in place to generate this information at a transaction level and in the most cost effective manner.

#### Information about geographical areas

The municipality's operations are in the Gauteng Province.

The table below indicates the relevant geographical information after eliminating inter segmental transfers:

# Merafong City Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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### 63. Transitional provisions

#### Transitional provision for Statutory Receivables

##### General information

The entity took advantage of the transitional provision as per Directive 3 of the GRAP Reporting Framework.

All Statutory Receivables have been classified and measured under an accounting policy that is not consistent with the requirements of GRAP 108.

Some progress has been made towards full compliance with GRAP 108, but it is expected that full compliance will only be reached at the end of the transitional period. The entity intends to comply in full with GRAP 108 by ensuring that, inter alia, all necessary considerations, assessments, calculations and significant judgements are made timeously and effectively, in order to classify and measure Statutory Receivables in accordance with the requirements of the standard.

### 64. Distribution losses

During the year under review, Merafong City Local Municipality had unaccounted water of 32.36% (2020: 25.68%) respectively. The total Rand value of these losses were R54 431 569.95 (2020: R43,733,103). These losses are represented by 5 086 488 KI (2020: 3,747,481 KI).

During the year under review, Merafong City Local Municipality had an unaccounted Electricity of 29.68% (2020: 51.36%) respectively. The total Rand value of these losses were R102 114 633.18 (2020: R150,167,272). These losses are represented by 74 798 288.94 Kw/h (2020: 133,543,822 Kw/h).

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