



Merafong City Local Municipality
(Registration number GT484)
Annual Financial Statements
for the year ended 30 June 2023

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

General Information

Legal form of entity

The entity function is a local municipality, established under paragraph 151 of the constitution of the Republic of South Africa

Nature of business and principal activities

Merafong City Local Municipality is a South African Category B Municipality (Local Municipality). The main business operations of the municipality is to engage in local government activities, which includes planning and promotion of integrated development planning, land use management, economic and environmental development and supplying of the following services to the community.

Waste Management Services - the collection and disposal of waste.

Electricity Services - Electricity is bought in bulk from Eskom and distributed to the consumers of the municipality in licensed areas.

Waste Water Management - Collection and purification of waste water.

Water Services - Supply of purified water.

Executive committee

Executive Mayor and Chairperson of mayoral committee

Speaker

Chief Whip

Councillor

N Best

TE Mphithikezi

T Mokuke

Members of Mayoral Committee

MMC Roads, Stormwater and Public Works

MMC Health and Social Development

MMC Corporate and Shared Services

MMC Integrated Environmental Management

MMC Local Economic, Tourism and Rural Development

MMC Finance

MMC Public Safety and Transport

MMC Electricity Gas and Water

MMC Human Settlement and Land Development

MMC Sports, Recreation, Arts and Culture

Members of the Council

Councillor

DV Tabane

E Tibane

GM Sello

DM Segakweng

GE Mbaliso

M Moyeni

N Mcetywa

LA Mganu

PN Sefako

VB Nkwanyana

Z Mteto

CY Kgakatsi

L Maritz

TM Mngandi

CS Steenkamp

JDW Zwaart

CMD Rebello

NE Wana

RM Chalatsi

N Letlabika

ET Mtembu

SI Tlharipe

VM Tyelingane

M Ngqele

AM Phenduka

LM Mpupu

TD Molathegi

DL Mayilibe

GE Mbaliso

M Naki

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

General Information

J Matabane
KL Nabiso
SMHA Khan
L Legabe
ET Soyaphi
S Mbecheni
B Van Der Berg
PEB O'Riley
DF Van Der Hoff
RG Lubbe
M Ntilane
C Mtshatsheni
M Ciliza
VB Nkwanyana
NW Gcwalangobuthi
ATR Motsumi
DC Niewenhuiyzen (resigned 04/11/22)
D Harman (Appointed 6/04/23)
T Malatjie (1 Nov 2021- 5 Sept 2022 Deceased)
FA Motloun (Appointed 01/12/2022)

Acting Chief Finance Officer (ACFO)

MB Dlamini (Acting from 28 November 2022)
RJ Magongwa (Acting from 1 July 2022- 27 November 2022)

Accounting Officers

DD Mabuza (Appointed 1 May 2023)
L Mere (Acting from 8 Nov 2022-
30 April 2023)
SL Mdletshe (Acting from 1 July
2022 - 7 Nov 2022)

Bankers

First National Bank

Auditors

Auditor-General of South Africa (AGSA)

Legal Representative

Panel of attorneys appointed:
De Swardt, Myambo, Hlahla Attorneys
LP Skosana Attorneys
Madhlopa & Thenga Incorporated
Mncedisi, Ndlovu & Sedumedi Incorporated
Moodie & Robertson
Mosire Tsiane Attorneys
Ntsoane Attorneys Incorporated
Raphela Attorneys Incorporated
Strauss Daly Incorporated
TA Dipudi Attorneys

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Index

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

	Page
Accounting Officer's Responsibilities and Approval	4
	5
Report of the Auditor General	6
Accounting Officer's Report	7
Statement of Financial Position	8
Statement of Financial Performance	9
Statement of Changes in Net Assets	10
Cash Flow Statement	11
Statement of Comparison of Budget and Actual Amounts	12 - 16
Accounting Policies	17 - 46
Notes to the Annual Financial Statements	47 - 88

Abbreviations used:

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of Southern Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IPSAS	International Public Sector Accounting Standards
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
COGTA	Department of Cooperative Governance and Traditional Affairs

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Responsibilities and Approval

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

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

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

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

I am 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.

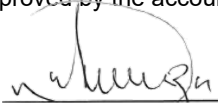
I have reviewed the municipality's cash flow forecast for the year to 30 June 2024 and, in the light of this review and the current financial position, I am satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although I am primarily responsible for the financial affairs of the municipality, I am supported by the municipality's management team and external auditors and other oversight governance structures of Council..

The external auditor being the Auditor General of South Africa, is responsible for independently reviewing and reporting on the municipality's annual financial statements.

The annual financial statements set out from pages 9-85 which have been prepared on the going concern basis, were approved by the accounting officer:



Accounting Officer
Mr. DD Mabuza

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023



Report of the Auditor General

To the Provincial Legislature of Merafong City Local Municipality

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Officer's Report

The accounting officer submit his report for the year ended 30 June 2023.

1. Review of activities

Main business and operations

The municipality is an organ of state within the local sphere of government exercising legislative and executive authority within an area determined in terms of the local government: Municipal Demarcation Act, 1998 and operates in South Africa.

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

Net deficit of the municipality was R 230 814 830 (2022: deficit R 337 459 393)

2. Going concern

I draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus of R 1 948 450 407 and that the municipality's total liabilities exceed its assets by R 1 948 450 407.

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

The ability of the Municipality to continue as a going concern is dependent on a number of factors. The most significant of these are listed below:

- (i) The ability to procure funding for the ongoing operations of the Municipality.
- (ii) Strict daily cash management processes are embedded in the Municipality's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the budget. The cash management processes are complemented by regular reporting, highlighting the actual cash position
- (iii) The cost containment circular issued by National Treasury has been adopted by Council and is currently implemented in 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.

.

3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year, that may need to be adjusted for or disclosed in the Annual Financial Statements.

4. Accounting policies

The annual financial statements are prepared in accordance with the South African Statements of Generally Recognised Accounting Practices (GRAP), including any interpretations of such Statements issued by the Accounting Practices Board and the Accounting Standards Board as the prescribed framework by National Treasury.

Accounting Officer
Mr. DD Mabuza

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Position as at 30 June 2023

	Note(s)	2023	2022 Restated*
Assets			
Current Assets			
Inventories	11	957 802	706 074
Receivables from exchange transactions	12	18 652 122	1 450 940
Receivables from non-exchange transactions	13	14 579 884	25 103 028
VAT receivable	14	119 010 288	106 989 865
Consumer debtors from exchange transactions	15	247 561 361	177 682 164
Consumer debtors from non-exchange transactions	10	29 919 946	67 862 217
Cash and cash equivalents	16	158 032 053	121 874 083
		588 713 456	501 668 371
Non-Current Assets			
Investment property	3	217 299 784	217 299 784
Property, plant and equipment	4	3 053 347 904	3 044 921 590
Intangible assets	5	207 821	613 801
Heritage assets	6	136 178	163 993
		3 270 991 687	3 262 999 168
Total Assets		3 859 705 143	3 764 667 539
Liabilities			
Current Liabilities			
Other financial liabilities	19	9 371 245	8 569 764
Finance lease obligation	17	4 149 873	40 863
Payables from exchange transactions	7	1 548 332 800	1 293 302 220
Consumer deposits	8	29 101 902	25 661 931
Employee benefits	9	5 705 749	7 158 000
Unspent conditional grants and receipts	18	67 736 186	47 951 515
Provisions	20	34 097 001	33 839 429
Bank overdraft	16	51 960 133	1 278 570
		1 750 454 889	1 417 802 292
Non-Current Liabilities			
Other financial liabilities	19	13 655 833	27 315 485
Employee benefits	9	140 612 000	135 977 000
Provisions	20	6 532 014	11 259 699
		160 799 847	174 552 184
Total Liabilities		1 911 254 736	1 592 354 476
Net Assets		1 948 450 407	2 172 313 063
Accumulated surplus		1 948 450 407	2 172 313 063
Total Net Assets		1 948 450 407	2 172 313 063

* See Note 48

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Statement of Financial Performance

	Note(s)	2023	2022 Restated*
Revenue			
Revenue from exchange transactions			
Service charges	22	841 370 222	812 884 441
Rental of facilities	23	1 421 167	1 772 120
Interest received (trading)		174 270 063	187 953 044
Agency fees	25	12 830 186	15 825 892
Licences and permits		1 296	709
Operational revenue	28	4 245 066	3 578 490
Interest received - investment	29	12 757 950	5 046 100
Fair value adjustment		18 069 426	20 066 849
Total revenue from exchange transactions		1 064 965 376	1 047 127 645
Revenue from non-exchange transactions			
Taxation revenue			
Property rates	30	581 883 095	567 514 048
Surcharges and Taxes	26	23 783 700	18 153 865
Transfer revenue			
Government grants and subsidies	32	460 017 030	378 498 131
Fines, Penalties and Forfeits	24	24 190 761	28 591 747
Total revenue from non-exchange transactions		1 089 874 586	992 757 791
Total revenue	21	2 154 839 962	2 039 885 436
Expenditure			
Employee related costs	33	(383 746 056)	(367 065 139)
Remuneration of councillors	34	(25 460 352)	(22 282 398)
Depreciation and amortisation	35	(156 239 843)	(178 972 460)
Impairment Loss	36	(16 523 854)	(41 845 392)
Finance costs	37	(144 451 408)	(82 958 223)
Debt Impairment	38	(791 414 976)	(854 458 724)
Inventory Consumed	11&40	(311 674 426)	(249 982 841)
Bulk purchases	40	(370 579 936)	(387 618 623)
Contracted services	41	(118 976 417)	(111 138 851)
Loss on disposal of assets and liabilities		(2 394 761)	(21 303 318)
Operational Costs	39	(64 192 763)	(59 718 860)
Total expenditure		(2 385 654 792)	(2 377 344 829)
Deficit for the year		(230 814 830)	(337 459 393)

* See Note 48

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Statement of Changes in Net Assets

	Accumulated surplus / deficit	Total net assets
Balance at 01 July 2021	2 851 284 723	2 851 284 723
Changes in net assets		
Prior year adjustment	(341 512 267)	(341 512 267)
Net income (losses) recognised directly in net assets	(341 512 267)	(341 512 267)
Deficit for the year	(337 459 393)	(337 459 393)
Total recognised income and expenses for the year	(678 971 660)	(678 971 660)
Total changes	(678 971 660)	(678 971 660)
Restated* Balance at 01 July 2022	2 179 265 237	2 179 265 237
Changes in net assets		
Deficit for the year	(230 814 830)	(230 814 830)
Total changes	(230 814 830)	(230 814 830)
Balance at 30 June 2023	1 948 450 407	1 948 450 407
Note(s)		

* See Note 48

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Cash Flow Statement

	Note(s)	2023	2022 Restated*
Cash flows from operating activities			
Receipts			
Rates and fines		619 334 412	614 210 228
Sale of goods and services		940 471 024	846 997 704
Grants		460 017 030	399 368 412
Other receipts		18 497 715	16 241 334
Interest income		187 028 013	5 046 100
		2 225 348 194	1 881 863 778
Payments			
Employee costs		(406 240 408)	(389 389 537)
Suppliers		(969 879 630)	(856 304 440)
Finance costs		(3 749 696)	(3 521 843)
		(1 379 869 734)	(1 249 215 820)
Undefined difference compared to the cash generated from operations note		66 299 597	3 221 742 654
Net cash flows from operating activities	42	911 778 057	3 854 390 612
Cash flows from investing activities			
Purchase of property, plant and equipment	4	(175 857 570)	(124 582 189)
Proceeds from sale of investment property	3	-	60 442 671
Net cash flows from investing activities		(175 857 570)	(64 139 518)
Cash flows from financing activities			
Repayment of other financial liabilities		(8 723 789)	(34 939 714)
Finance lease payments		(25 373)	(255 298)
Net cash flows from financing activities		(12 883 544)	(51 558 378)
Net increase/(decrease) in cash and cash equivalents		723 036 943	3 738 692 716
Cash and cash equivalents at the beginning of the year		123 760 499	62 362 286
Cash and cash equivalents at the end of the year	16	846 797 442	3 801 055 002

The accounting policies on pages 17 to 46 and the notes on pages 47 to 88 form an integral part of the annual financial statements.

* See Note 48

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
--	-----------------	-------------	--------------	------------------------------------	--	-----------

Statement of Financial Performance

Revenue

Revenue from exchange transactions

Service charges	887 936 873	(9 989 009)	877 947 864	-	(877 947 864)
Rental of facilities and equipment	1 881 906	(365 648)	1 516 258	-	(1 516 258)
Interest earned- Outstanding debtors	252 249 999	806 028	253 056 027	-	(253 056 027)
Agency services	-	-	-	12 830 186	12 830 186
Licences and permits	18 000 870	-	18 000 870	-	(18 000 870)
Other revenue	30 640 824	1 740 629	32 381 453	-	(32 381 453)
Other income - (rollup)	2 307 011	(2 307 011)	-	-	-
Interest received - investment	5 000 000	3 140 459	8 140 459	-	(8 140 459)
Total revenue from exchange transactions	1 198 017 483	(6 974 552)	1 191 042 931	12 830 186	(1 178 212 745)

Revenue from non-exchange transactions

Taxation revenue

Property rates	518 214 976	78 175 832	596 390 808	-	(596 390 808)
Surcharges and Taxes	(584 347)	584 347	-	-	-

Transfer revenue

Government grants and subsidies	287 245 850	7 195 000	294 440 850	-	(294 440 850)
Fines, Penalties and Forfeits	4 764 371	71 046	4 835 417	24 190 761	19 355 344

Total revenue from non-exchange transactions	809 640 850	86 026 225	895 667 075	24 190 761	(871 476 314)
---	--------------------	-------------------	--------------------	-------------------	----------------------

Total revenue	2 007 658 333	79 051 673	2 086 710 006	37 020 947	(2 049 689 059)
----------------------	----------------------	-------------------	----------------------	-------------------	------------------------

Expenditure

Employee related costs	(383 660 370)	10 201 497	(373 458 873)	(383 746 056)	(10 287 183)
Remuneration of councillors	(22 218 593)	(4 122 601)	(26 341 194)	(25 460 352)	880 842
Depreciation and amortisation	(113 585 550)	-	(113 585 550)	(156 239 843)	(42 654 293)
Impairment loss/ Reversal of impairments	-	-	-	(16 523 854)	(16 523 854)
Finance costs	(73 068 806)	(51 701 605)	(124 770 411)	(144 451 408)	(19 680 997)
Debt Impairment	(502 920 403)	(65 457 534)	(568 377 937)	(791 414 976)	(223 037 039)
Inventory Consumed	(214 794 051)	6 015 112	(208 778 939)	(311 674 426)	(102 895 487)
Bulk purchases	(427 172 515)	28 419 748	(398 752 767)	(370 579 936)	28 172 831
Contracted Services	(97 480 847)	2 068 508	(95 412 339)	(118 976 417)	(23 564 078)
Transfers and Subsidies	(1 540 000)	500 000	(1 040 000)	-	1 040 000
Operational Costs	-	-	-	(64 192 763)	(64 192 763)
Other expenditure	(89 620 533)	(177 067)	(89 797 600)	-	89 797 600
Losses	(73 445 683)	(12 948 991)	(86 394 674)	-	86 394 674

Total expenditure	(1 999 507 351)	(87 202 933)	(2 086 710 284)	(2 383 260 031)	(296 549 747)
--------------------------	------------------------	---------------------	------------------------	------------------------	----------------------

Operating deficit	8 150 982	(8 151 260)	(278)	(2 346 239 084)	(2 346 238 806)
--------------------------	------------------	--------------------	--------------	------------------------	------------------------

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
.						
Loss on disposal of assets and liabilities	-	-	-	(2 394 761)	(2 394 761)	
Actuarial gains/losses	-	-	-	18 069 426	18 069 426	
	-	-	-	15 674 665	15 674 665	
Deficit before taxation	8 150 982	(8 151 260)	(278)	(2 330 564 419)	(2 330 564 141)	
Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement	8 150 982	(8 151 260)	(278)	(2 330 564 419)	(2 330 564 141)	
Reconciliation						
Balance check				2 099 749 589		
Actual Amount in the Statement of Financial Performance				(230 814 830)		

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
.						

Statement of Financial Position

Assets

Current Assets

Inventories	-	-	-	957 802	957 802	
Receivables from exchange transactions	-	-	-	18 652 122	18 652 122	
Receivables from non-exchange transactions	-	-	-	14 579 884	14 579 884	
VAT receivable	-	-	-	119 010 288	119 010 288	
Consumer debtors	-	-	-	243 729 376	243 729 376	
Consumer debtors from non-exchange transactions	-	-	-	29 919 946	29 919 946	
Cash and cash equivalents	432 766 481	(432 766 481)	-	158 032 053	158 032 053	
	432 766 481	(432 766 481)	-	584 881 471	584 881 471	

Non-Current Assets

Investment property	-	-	-	217 299 784	217 299 784	
Property, plant and equipment	(25 617 000)	25 617 000	-	3 053 347 904	3 053 347 904	
Intangible assets	-	-	-	207 821	207 821	
Heritage assets	-	-	-	136 178	136 178	
	(25 617 000)	25 617 000	-	3 270 991 687	3 270 991 687	

Total Assets	407 149 481	(407 149 481)	-	3 855 873 158	3 855 873 158	
---------------------	--------------------	----------------------	---	----------------------	----------------------	--

Liabilities

Current Liabilities

Other financial liabilities	-	-	-	9 371 245	9 371 245	
Finance lease obligation	-	-	-	4 149 873	4 149 873	
Payables from exchange transactions	-	-	-	1 548 332 801	1 548 332 801	
Consumer deposits	-	-	-	29 101 902	29 101 902	
Employee benefits	-	-	-	5 705 749	5 705 749	
Unspent conditional grants and receipts	-	-	-	67 736 186	67 736 186	
Provisions	-	-	-	34 097 001	34 097 001	
Bank overdraft	-	-	-	51 960 133	51 960 133	
	-	-	-	1 750 454 890	1 750 454 890	

Non-Current Liabilities

Other financial liabilities	-	-	-	13 655 833	13 655 833	
Employee benefits	-	-	-	140 612 000	140 612 000	
Provisions	-	-	-	6 532 014	6 532 014	
	-	-	-	160 799 847	160 799 847	

Total Liabilities	-	-	-	1 911 254 737	1 911 254 737	
--------------------------	---	---	---	----------------------	----------------------	--

Net Assets	407 149 481	(407 149 481)	-	1 944 618 421	1 944 618 421	
-------------------	--------------------	----------------------	---	----------------------	----------------------	--

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
.						
Net Assets						
Net Assets Attributable to Owners of Controlling Entity						
Reserves						
Accumulated surplus	391 744 481	(391 744 481)		- 1 944 618 423	1 944 618 423	
Undefined Difference	15 405 000	(15 405 000)		- 3 831 984	-	
Total Net Assets	391 744 481	(391 744 481)		- 1 944 618 423	1 944 618 423	

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Statement of Comparison of Budget and Actual Amounts

Budget on Cash Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
.						

Cash Flow Statement

Cash flows from operating activities

Receipts

Property rates	432 766 481	-	432 766 481	-	(432 766 481)	
Service charges	546 634 890	-	546 634 890	-	(546 634 890)	
Grants	519 441 015	-	519 441 015	-	(519 441 015)	
Other receipts	148 279	-	148 279	-	(148 279)	
	1 498 990 665	-	1 498 990 665	-	(1 498 990 665)	
Net increase/(decrease) in cash and cash equivalents	1 498 990 665	-	1 498 990 665	-	(1 498 990 665)	
Cash and cash equivalents at the end of the year	1 498 990 665	-	1 498 990 665	-	(1 498 990 665)	

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

	Note(s)	2023	2022
--	---------	------	------

1. Significant account policies

The principal accounting policies applied in the preparation of these annual financial statements are set out below.

1.1 Basis of preparations

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.

These accounting policies are consistent with the previous period.

1.2 Presentation currency

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

1.3 Going concern assumption

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

1.4 Materiality

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

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.5 Significant judgements and sources of estimation uncertainty (continued)

Fair value estimation

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

Impairment testing

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. It is reasonably possible that the assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

These calculations require the use of estimates and assumptions. 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.

Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 20 - Provisions.

Post-retirement benefits

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 9.

Effective interest rate

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

Allowance for doubtful debts

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

1.6 Investment property

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

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.6 Investment property (continued)

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

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

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

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

Cost model

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

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.

1.7 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.7 Property, plant and equipment (continued)

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

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

Item	Depreciation method	Average useful life
Infrastructure		-
Roads and stormwater	Straight-line	5-80 Years
Electricity	Straight-line	15-50 Years
Water	Straight-line	15-50 Years
Sewerage	Straight-line	10-80 Years
Other	Straight-line	-
Buildings	Straight-line	5-100 Years
Office equipment	Straight-line	3-12 Years
Other vehicles	Straight-line	5-8 Years
Furniture and fittings	Straight-line	7-30 Years
Plant and equipment	Straight-line	7-29 Years
Computer equipment	Straight-line	5-8 Years
Library material	Straight-line	5-15 Years
Other assets	Straight-line	5-30 Years
Land	Straight-line	Indefinite

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

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

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

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

All items of property, plant and equipment are considered to be non-cash generating. The municipality tests for impairment where there is an indication that an asset may be impaired.

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

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

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

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.7 Property, plant and equipment (continued)

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

1.8 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services.

An asset is identifiable if it either:

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

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.

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

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

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

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.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values. The amortisation charge for each period is recognised in surplus or deficit. Amortisation begins when the asset is available for use.

An intangible asset with an indefinite useful life shall not be amortised.

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

Intangible assets are derecognised:

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

The gain or loss arising from the derecognition of intangible assets is determined as the difference between the sales proceeds and the carrying value and is included in surplus or deficit when the asset is derecognised.

Item	Depreciation method	Average useful life
Computer software	Straight-line	3 - 12 years

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.9 Heritage assets

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

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.

Impairment

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

In assessing whether there is an indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

- During the period, a heritage asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use
- The absence of an active market for a revalued heritage asset.

Internal sources of information

- Evidence is available of physical damage or deterioration of a heritage asset
- A decision to halt the construction of the heritage asset before it is complete or in a usable form

Derecognition

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

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

1.10 Financial instruments

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

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

- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.

A financial instrument is recognised when the municipality becomes a party to the contractual provisions of the instrument and are initially measured at fair value. The initial measurement includes transaction cost directly attributable to the acquisition or issue of the financial asset or financial liability, as per GRAP 104.36

A financial asset is:

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.10 Financial instruments (continued)

- 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 under conditions that are potentially favourable to the municipality

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

Type of financial asset	Classification in terms of GRAP 104
Cash and cash equivalents	Financial assets at amortised cost
Receivables from exchange transactions	Financial assets at amortised cost
Receivables from non-exchange transactions	Financial assets at amortised cost

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

Receivables from non-exchange transactions exclude Fines, Property rates, and VAT as these form part of statutory receivables.

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

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

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

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

Type of financial liability	Classification in terms of GRAP 104
Borrowings	Financial liability at amortised cost
Current portion of borrowings	Financial liability at amortised cost
Finance lease liability	Financial liability at amortised cost
Current portions of finance lease liability	Financial liability at amortised cost
Trade and other payables from exchange transactions	Financial liability at amortised cost
Consumer deposits	Financial liability at amortised cost

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.10 Financial instruments (continued)

Impairment of financial assets - Receivables

For receivables, an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the receivable's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition (if practically determinable). Where the effective interest rate at initial recognition is not practically determinable the government bond rate is used as the risk-free rate and adjusted for any risks specific to the receivables.

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

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of financial performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

Derecognition

Financial assets

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

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

Financial liabilities

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

1.11 Statutory receivables

Identification

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

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.

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

The municipality has the following major categories under statutory receivables:

- VAT receivables
- Property rates debtors
- Traffic fine debtors

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.11 Statutory receivables (continued)

- if the transaction is not within the scope of the policies listed in the above or another Standard of GRAP, the receivable is recognised when the definition of an asset is met and, when it is probable that the future economic benefits or service potential associated with the asset will flow to the entity and the transaction amount can be measured reliably.

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

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

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

1.11.1 Impairment

Accrued interest

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

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

Other charges

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

Impairment losses

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

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

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

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

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.11 Statutory receivables (continued)

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

Derecognition

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

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

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

1.12 Leases

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

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

Finance leases - lessee

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

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

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

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

Operating leases - lessee

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

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

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

1.13 Inventories

Inventories are assets in the form of materials or supplies to be consumed or distributed in the rendering of services or held for distribution in the ordinary course of operations.

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.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.13 Inventories (continued)

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.

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

1.14 Impairment of cash-generating assets

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

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

Designation

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

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

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Identification

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

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

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

In assessing whether there is any indication that an asset may be impaired, an entity shall consider, as a minimum, the following indications:

External sources of information

(a) During the period, an asset's market value has declined significantly more than would be expected as a result of the passage of time or normal use.

(b) Significant changes with an adverse effect on the entity have taken place during the period, or will take place in the near future, in the technological, market, economic or legal environment in which the entity operates or in the market to which an asset is dedicated.

(c) Market interest rates or other market rates of return on investments have increased during the period, and those increases are likely to affect the discount rate used in calculating an asset's value in use and decrease the asset's recoverable amount materially.

Internal sources of information

(d) Evidence is available of obsolescence or physical damage of an asset.

(e) Significant changes with an adverse effect on the entity have taken place during the period, or are expected to take place in the near future, in the extent to which, or manner in which, an asset is used or is expected to be used. These changes include the asset becoming idle, plans to discontinue or restructure the operation to which an asset belongs, plans to dispose of an asset before the previously expected date, and reassessing the useful life of an asset as finite rather than indefinite.

(f) A decision to halt the construction of the asset before it is complete or in a useable condition.

(g) Evidence is available from internal reporting that indicates that the economic performance of an asset is, or will be, worse than

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.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

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.

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.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Cash-generating units

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

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

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

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

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

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

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

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

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.14 Impairment of cash-generating assets (continued)

Reversal of impairment loss

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

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

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

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

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

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

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

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

Redesignation

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

1.15 Impairment of non-cash-generating assets

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.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

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

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

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

Useful life is either:

- 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.

Judgements are made by management in applying the criteria to designate assets as non-cash-generating assets or cash-generating assets.

Designation

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

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

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

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

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

Identification

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

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

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

Value in use

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

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

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.

Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

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

Reversal of an impairment loss

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

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

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

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

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

Redesignation

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

1.16 Employee benefits

Employee benefits are all forms of consideration given by the 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 entity's actions whereby an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.16 Employee benefits (continued)

Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

Post-employment benefits

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

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

Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the municipality pays fixed contributions into a separate 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 recognises the contribution payable to a defined contribution plan in exchange for that service:

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.16 Employee benefits (continued)

Post-employment benefits: Defined benefit plans

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

Actuarial gains and losses comprise experience adjustments (the effects of differences between the previous actuarial assumptions and what has actually occurred) and the effects of changes in actuarial assumptions. In measuring its defined benefit liability the municipality recognises 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 recognises 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 municipality 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;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly;
- plus any liability that may arise as a result of a minimum funding requirement

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

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

The 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, the municipality shall attribute benefit on a straight-line basis from:

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.16 Employee benefits (continued)

- 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.

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

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

1.17 Provisions and contingencies

Provisions are recognised when:

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.17 Provisions and contingencies (continued)

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

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 46.

Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

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

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

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

1.18 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.19 Revenue from exchange transactions

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

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

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

Estimation of Meter Readings:

Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced.

Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Estimation of unused Prepaid Metered Services:

Estimates of unused consumption of prepaid metered services, based on the consumption history, are made at year end.

Sales for prepaid metered services are recognised as revenue upon receipt of payment for these services, except at year-end when estimates for unused consumption up to reporting date are reversed from revenue and accrued as payment for services received in advance. These accruals are reversed in the new financial year to revenue again, deemed to be consumed after 30 June. In respect of estimates of consumption between the last date of purchase and the reporting date, an accrual for payments received in advance is made based on the average monthly consumption of consumers. At the reporting date, an accrual is made based on the average monthly consumption of consumers.

Measurement

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

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

Rendering of services

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

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

Interest, royalties and dividends

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.20 Revenue from non-exchange transactions

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

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

Control of an asset arises 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.

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

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

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

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

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

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

Recognition

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

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

Measurement

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

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

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

Taxes

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

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

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

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

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

Transfers

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

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

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

Debt forgiveness and assumption of liabilities

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

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

Fines

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

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

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

Bequests

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

Gifts and donations, including goods in-kind

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

Services in-kind

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.20 Revenue from non-exchange transactions (continued)

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

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

1.21 Investment income

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

1.22 Borrowing costs

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

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

1.23 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.

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

Identifying whether an entity is a principal or an agent

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

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

Binding arrangement

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.23 Accounting by principals and agents (continued)

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.

1.24 Comparative figures

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

1.25 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.

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

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

1.26 Fruitless and wasteful expenditure

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

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.27 Irregular expenditure

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

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

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

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

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

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

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

1.28 Segment information

A segment is an activity of an entity:

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

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

Measurement

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.29 Research and development expenditure

Expenditure on research is recognised as an expense when it is incurred.

An asset arising from development 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.

1.30 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 shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

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

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

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

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

1.31 Related parties

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

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

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

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

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

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

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

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.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Accounting Policies

1.31 Related parties (continued)

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.

1.32 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

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

2. New standards and interpretations

2.1 Standards and Interpretations early adopted

The municipality has chosen to early adopt the following standards and interpretations:

2.2 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2023 or later periods:

Standard/ Interpretation:	Effective date: Years beginning on or after	Expected impact:
•		
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2023	Unlikely there will be a material impact
• GRAP 103 (as revised): Heritage Assets	01 April 2009	Unlikely there will be a material impact
• GRAP 25 (as revised): Employee Benefits	01 April 2023	Unlikely there will be a material impact
• iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction	01 April 2023	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2009	Unlikely there will be a material impact
• GRAP 104 (as revised): Financial Instruments	01 April 2025	Unlikely there will be a material impact
• iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact
• GRAP 2020: Improvements to the standards of GRAP 2020	01 April 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Unlikely there will be a material impact

Additional text

- Additional text
- Additional text
- Additional text

The effective date of the is for years beginning on or after .

The municipality expects to adopt the for the first time in the 2000 annual financial statements.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

3. Investment property

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	217 299 784	-	217 299 784	217 299 784	-	217 299 784

Reconciliation of investment property - 2023

	Opening balance	Total
Investment property	217 299 784	217 299 784

Reconciliation of investment property - 2022

	Opening balance	Disposals	Total
Investment property	277 742 455	(60 442 671)	217 299 784

Pledged as security

All of the municipality's investment property is held under freehold interests and no investment property has been pledged as security for any liabilities of the municipality.

Investment property in the process of being constructed or developed

No investment property is in the process of being constructed or developed.

Details of investment property

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

3. Investment property (continued)

Criteria used to distinguish investment property from owner-occupied property and from property held for sale in the ordinary course of business is set out in the accounting policy note of investment property.

There are no restrictions on the realisability of investment property of the remittance of revenue and proceeds of disposal.

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.

Maintenance of investment property

No maintenance expenditure was incurred on investment property.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

4. Property, plant and equipment

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	229 967 685	-	229 967 685	229 967 685	-	229 967 685
Buildings	176 827 081	(105 231 727)	71 595 354	176 837 081	(101 031 299)	75 805 782
Infrastructure	4 675 323 488	(2 486 808 588)	2 188 514 900	4 531 027 442	(2 341 927 287)	2 189 100 155
Community facilities	522 744 487	(317 168 706)	205 575 781	488 826 048	(303 650 309)	185 175 739
Other assets	73 489 004	(37 060 113)	36 428 891	57 578 749	(28 625 783)	28 952 966
Work in progress	315 825 702	5 439 591	321 265 293	333 895 492	2 023 771	335 919 263
Total	5 994 177 447	(2 940 829 543)	3 053 347 904	5 818 132 497	(2 773 210 907)	3 044 921 590

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	229 967 685	-	-	-	-	-	-	229 967 685
Buildings	75 805 782	-	(19)	-	(3 969 112)	(241 780)	483	71 595 354
Infrastructure	2 189 100 155	4 237 706	(788 814)	142 550 412	(134 804 904)	(11 841 590)	61 935	2 188 514 900
Community facilities	185 175 739	-	-	33 918 439	(9 602 786)	(3 915 611)	-	205 575 781
Other assets	28 952 966	15 744 803	(26 709)	-	(7 654 879)	(587 290)	-	36 428 891
Work in progress	335 919 263	155 875 061	-	(170 529 031)	-	-	-	321 265 293
	3 044 921 590	175 857 570	(815 542)	5 939 820	(156 031 681)	(16 586 271)	62 418	3 053 347 904

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

4. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	229 967 685	-	-	-	-	-	229 967 685
Buildings	79 631 202	-	-	-	(3 736 452)	(88 968)	75 805 782
Infrastructure	2 343 637 464	3 218 948	(15 489 918)	47 722 808	(159 249 507)	(30 739 640)	2 189 100 155
Community facilities	204 600 151	-	-	-	(11 954 320)	(7 470 092)	185 175 739
Other assets	30 789 894	2 884 038	(364 305)	-	(4 349 490)	(7 171)	28 952 966
Work in progress	309 095 829	118 479 203	-	(47 722 808)	-	(43 932 961)	335 919 263
	3 197 722 225	124 582 189	(15 854 223)	-	(179 289 769)	(82 238 832)	3 044 921 590

Pledged as security

No portion of property, plant and equipment has been pledged as security for liabilities, other than obligations under finance leases that are secured by the lessor's right over the leased assets.

Borrowing costs capitalised

There are no borrowing costs that have been capitalised to the property, plant and equipment.

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.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

5. Intangible assets

	2023			2022		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	2 075 500	(1 867 679)	207 821	4 945 364	(4 331 563)	613 801

Reconciliation of intangible assets - 2023

	Opening balance	Derecognition	Amortisation	Total
Computer software, other	613 801	(201 380)	(204 600)	207 821

Reconciliation of intangible assets - 2022

	Opening balance	Amortisation	Total
Computer software, other	765 236	(151 435)	613 801

Pledged as security

No portion of intangible assets has been pledged as security for liabilities.

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

6. Heritage assets

	2023			2022		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	190 360	(54 182)	136 178	190 360	(26 367)	163 993

Reconciliation of heritage assets 2023

	Opening balance	Depreciation	Total
Art Collections, antiquities and exhibits	163 993	(27 815)	136 178

Reconciliation of heritage assets 2022

	Opening balance	Impairment losses recognised	Total
Art Collections, antiquities and exhibits	172 335	(8 342)	163 993

Pledged as security

No portion of heritage assets has been pledged as security for liabilities.

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
7. Payables from exchange transactions		
Trade payables	1 453 827 846	1 201 919 715
Retentions	35 089 986	28 499 274
Debtors with credit balances	55 845 783	59 675 781
Other payables	3 569 185	3 207 450
	1 548 332 800	1 293 302 220
8. Consumer deposits		
Water and Electricity	29 101 902	25 661 931

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

9. Employee benefit obligations

Defined benefit plan

Employee Benefit Liabilities

Post-retirement Health Care Benefits	9.1	4 297 000	3 557 000
Long Service Awards Liability	9.2	5 922 000	3 601 000
Current Portion of Employee Benefit Liabilities		10 219 000	7 158 000
Post-retirement Health Care Benefits	9.1	112 520 000	110 598 000
Long Service Awards Liability	9.2	23 362 000	25 379 000
Non-Current Portion of Employee Benefit Liabilities		135 882 000	135 977 000

9.1 Post retirement medical aid plan

The municipality offers employees and continuation members the opportunity of belonging to one of several medical schemes, most of which offer a range of options pertaining to levels of cover.

Upon retirement, an employee may continue membership of the medical scheme. Upon a member's death-in-service or death-in-retirement, the surviving dependants may continue membership of the medical scheme.

Members contribute according to tables of contribution rates which differentiate between them on the type and number of dependants. Some options also differentiate on the basis of income.

Eligible employees will receive a post-employment subsidy of 60% of the contribution payable should they be a member of a medical scheme at retirement. Continuation members and their eligible dependants receive either 60% or 70% subsidy.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2023 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

Post-retirement Health Care Benefits Liability

Opening balance	114 199 000	113 131 000
Interest cost	13 291 000	11 324 000
Current service cost	4 547 000	4 357 000
Actual employer benefits payments	(4 067 749)	(3 725 984)
Actuarial loss/(gain) recognised in the year	(11 152 251)	(10 887 016)
	116 817 000	114 199 000
Current portion of liability (due in the next 12 months)	4 297 000	3 601 000
Non-current portion of liability	112 520 000	110 598 000
Total Post-retirement Health Care Benefits Liability	116 817 000	114 199 000

The members of the Post-employment Health Care Benefit plan are made up as follows:

In-service members (employees)	578	567
In-service non-members (employees)	158	181
Continuation members (retirees, widowers and orphans)	88	65
Total members	824	813

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

9. Employee benefit obligations (continued)

The liability in respect of past service has been estimated as follows:

In-service members	70 207 000	75 584 000
In-service non-members	3 379 000	4 108 000
Continuation members	43 231 000	34 507 000
Total Liability	116 817 000	114 199 000

Post-retirement

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes:

- Bonitas
- Sizwe-Hosmed
- Keyhealth
- LA health
- Samwumed

The current-service cost for the year ending 30 June 2023 is estimated to be R4 547 000 whereas the cost for the ensuing year is estimated to be R4 170 000 (30 June 2022: R4 357 000 and R4 574 000 respectively).

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	12.45%	11.82%
Health Care Cost Inflation rate	8.06%	8.44%
Net Effective Discount Rate	4.06%	3.12%
Expected Retirement Age- Females	62yrs	62yrs
Expected Retirement Age - Males	62yrs	62yrs

General:

It is assumed that the municipality's health care arrangements and subsidy policy would remain.

Continuation of Membership:

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

Family Profile:

It has been assumed that female spouses will be four years younger than their male counterparts. Furthermore it has been assumed that 60% of eligible employees on a health care arrangement at retirement will have a subsidised spouse dependant. For current retiree members, actual subsidised spouse dependants were used and the potential for remarriage was ignored.

Discount Rate:

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

Consequently, a discount rate of 12.45% per annum has been used. The corresponding index-linked yield at this term is 5.06%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2023.

9.2 Long Service Awards Liability

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

9. Employee benefit obligations (continued)

The Municipality offers employees Long Service Awards for every five years of service completed, from ten years of service to 45 years of service, inclusive.

The most recent actuarial valuations of plan assets and the present value of the defined benefit obligation were carried out at 30 June 2023 by Mr C Weiss, Fellow of the Actuarial Society of South Africa. The present value of the defined benefit obligation, and the related current service cost and past service cost, were measured using the Projected Unit Credit Method.

At year-end, 736 (2022: 748) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2023 is estimated to be R2 060 000, whereas the cost for the ensuing year is estimated to be R1 950 000 (30 June 2022: R2 167 000 and R2 060 000 respectively).

Opening balance	28 936 000	30 315 000
Current service cost	2 060 000	2 167 000
Interest cost	2 903 000	2 417 000
Benefits vesting	(3 036 408)	(4 518 292)
Actuarial (gain)/loss	(1 578 592)	(1 444 708)
	29 284 000	28 936 000

Current portion of liability (due in the next 12 months)	5 922 000	3 557 000
Non-current portion of liability	23 362 000	25 379 000
Total Long Service Awards Liability	29 284 000	28 936 000

Long Service Awards

The principal assumptions used for the purposes of the actuarial valuations were as follows:

Discount rate	10.84%	10.67%
Health Care Cost Inflation rate	6.34%	7.31%
Net Effective Discount Rate	4.23%	3.13%
Expected Retirement Age- Females	62yrs	62yrs
Expected Retirement Age - Males	62yrs	62yrs

General:

It is assumed that the Municipality's long service arrangements and subsidy policy would remain as outlined in the report, and that the level of benefits would remain unchanged, with the exception of inflationary adjustments.

Discount rate:

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

Consequently, a discount rate of 10.84% per annum has been used. The corresponding liability-weighted index-linked yield is 4.74%. These rates do not reflect any adjustment for taxation, and were deduced from the interest rate data obtained from the JSE after the market close on 30 June 2023. The duration of the total liability was estimated to be 7 years.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
10. Consumer debtors from non-exchange transactions		
Gross balances		
Property rates	1 998 796 487	1 435 793 209
Other	176 549	932 667
	1 998 973 036	1 436 725 876
Less: Allowance for Impairment		
Property rates	(1 968 878 199)	(1 368 128 200)
Other	(174 891)	(735 459)
	(1 969 053 090)	(1 368 863 659)
Net balances		
Property rates	29 918 288	67 665 009
Other	1 658	197 208
	29 919 946	67 862 217
Property rates		
Current (0-30 days)	(48 741 909)	52 643 860
31 - 60 days	50 222 753	47 852 498
61 - 90 days	45 101 291	43 772 790
91 - 120 days	43 685 013	42 503 110
>120 days	1 908 259 339	1 456 011 304
	1 998 526 487	1 642 783 562
Other		
Current (0-30 days)	930	2 432
31 - 60 days	1 086	2 198
61 - 90 days	836	1 423
91 - 120 days	1 505	956
>120 days	172 192	175 856
	176 549	182 865
11. Inventories		
Water for distribution	957 802	706 074
Inventory pledged as security		
No portion of inventory has been pledged as a security.		
Water for distribution		
Opening balance	706 074	672 413
System input volume	311 906 748	250 016 502
Authorised consumption	(204 243 988)	(193 197 054)
Unavoidable annual real losses	(107 662 760)	(56 819 449)
Adjustment	251 728	33 662
Closing balance	957 802	706 074
12. Receivables from exchange transactions		
Trade receivables	18 652 122	1 450 940

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
13. Receivables from non-exchange transactions		
Traffic fines	95 665 820	103 784 312
Less: Impairment	(81 085 936)	(78 681 284)
	14 579 884	25 103 028
14. VAT receivable		
VAT	119 010 288	106 989 865
15. Consumer debtors		
Gross balances		
Electricity	226 920 949	139 735 675
Water	1 740 012 010	940 784 333
Sewerage	376 718 737	222 929 366
Refuse	484 247 442	286 808 494
Other	14 601 354	1 069 611 124
	2 842 500 492	2 659 868 992
Less: Allowance for impairment		
Electricity	(195 786 212)	(113 783 791)
Water	(1 590 943 153)	(901 986 722)
Sewerage	(354 943 218)	(207 294 631)
Refuse	(444 009 011)	(255 342 589)
Other (specify)	(13 089 438)	(1 003 779 094)
	(2 598 771 032)	(2 482 186 827)
Net balance		
Electricity	31 134 737	25 951 884
Water	149 068 857	38 797 611
Sewerage	21 775 519	15 634 734
Refuse	40 238 431	31 465 905
Other (specify)	5 343 817	65 832 030
	247 561 361	177 682 164
Water		
Current (0 -30 days)	145 050 548	41 281 071
31 - 60 days	22 967 882	23 929 870
61 - 90 days	19 809 153	22 255 519
91 - 120 days	18 458 986	21 461 202
> 120 days	1 533 725 441	1 364 725 721
	1 740 012 010	1 473 653 383
Sewerage		
Current (0 -30 days)	12 553 761	11 430 488
31 - 60 days	8 275 378	8 301 404
61 - 90 days	6 627 683	6 958 147
91 - 120 days	6 217 799	6 550 664
>120 days	343 044 116	299 214 895
	376 718 737	332 455 598

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
15. Consumer debtors (continued)		
Electricity		
Current (0 -30 days)	18 200 921	18 265 846
31 - 60 days	121 232 161	12 413 401
61 - 90 days	4 957 089	5 266 896
91 - 120 days	4 032 752	4 531 666
120 days	187 498 026	160 097 317
	335 920 949	200 575 126
Refuse		
Current (0 -30 days)	13 734 519	13 625 564
31 - 60 days	11 068 809	11 219 634
61 - 90 days	8 769 434	8 937 536
91 - 120 days	8 064 988	8 298 239
>120 days	442 609 692	389 130 251
	484 247 442	430 851 223
Other		
Current (0 -30 days)	1 475 080	1 023 723
31 - 60 days	946 958	795 374
61 - 90 days	634 846	594 947
91 - 120 days	531 544	543 642
>120 days	11 012 927	13 079 695
	14 601 355	16 037 381
Reconciliation of allowance for impairment		
Balance at beginning of the year	(2 482 186 828)	(2 112 516 581)
Impairment adjustment for the year	(116 584 204)	(369 670 247)
	(2 598 771 032)	(2 482 186 828)
16. Cash and cash equivalents		
Cash and cash equivalents consist of:		
Cash on hand	15 782	15 782
Bank balances	4 507 448	13 383 484
Short-term deposits	153 508 823	108 474 817
Bank overdraft	(51 960 133)	(1 278 570)
	106 071 920	120 595 513
Current assets	158 032 053	121 874 083
Current liabilities	(51 960 133)	(1 278 570)
	106 071 920	120 595 513

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

16. Cash and cash equivalents (continued)

The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2023	30 June 2022	30 June 2021	30 June 2023	30 June 2022	30 June 2021
NEDBANK Ltd - Current account	2 377 844	17 235 277	681 326	(51 959 233)	3 164 987	(7 591 166)
FIRST NATIONAL BANK - Current Account	3 615 402	3 083 670	2 142 576	2 815 740	(1 274 020)	7 088 303
FNB Fleet Deposit	250 000	250 000	250 000	250 000	250 000	250 000
FIRST NATIONAL BANK - Traffic Fines	-	-	10 332	(600)	(2 000)	363 349
NEDBANK Ltd - Traffic Fines	-	-	-	(300)	(2 550)	-
NEDBANK SPECIAL DEPOSIT	1 441 708	13 133 484	10 700 757	1 441 708	13 133 484	30 700 757
FIRST NATIONAL BANK - Call Account	153 508 823	108 474 817	67 468 526	153 508 823	108 474 817	39 670 827
Cash on hand	-	-	-	15 782	15 782	32 341
Total	161 193 777	142 177 248	81 253 517	106 071 920	123 760 500	70 514 411

VBS Investments

Balance of VBS Investment	46 892 770	46 892 770
Less: impairment of investment	(46 892 770)	(46 892 770)
	-	-

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 was handed to South african Crime directorate. On the 4th February 2022 an amount of R3 529 563.33 was received in the main bank account of the municipality. The capital amount and impairment was decreased respectively.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
17. Finance lease obligation		
Minimum lease payments due		
- within one year	3 137 968	173 168
- in second to fifth year inclusive	3 883 832	92 247
	7 021 800	265 415
less: future finance charges	(1 017 654)	(10 117)
Present value of minimum lease payments	6 004 146	255 298
Present value of minimum lease payments due		
- within one year	2 771 660	164 955
- in second to fifth year inclusive	3 232 486	90 343
	6 004 146	255 298

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.

18. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

Unspent conditional grants and receipts		
MIG	9 016 646	9 772 428
EPWP- Waste COGTA	25 979	32 288
Mining Town	28 589 000	19 344 839
WSIG	10 582 318	3 718 962
INEP	(2 931 250)	(3 184 460)
FMG	814 989	(3 415)
Covid-19	3 200 508	884 602
Municipal disaster recovery	4 219	4 219
SETA training	542 818	542 818
Mayor's charity fund	13 147 123	11 678 609
Gauteng capacity building	4 588 373	5 160 625
Westrand capacity building	155 463	-
	67 736 186	47 951 515

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

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

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

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
19. Other financial liabilities		
At amortised cost		
Current portion of long-term loans	9 371 245	8 569 764
Non-current portion of long-term loans	13 655 833	27 315 485
Total other financial liabilities	23 027 078	35 885 249
Current portion of other financial liabilities		
Nedbank	6 848 648	6 136 905
Development Bank of South Africa	2 522 597	2 432 859
	9 371 245	8 569 764
Non-current portion of other financial liabilities		
Nedbank	7 650 159	14 498 166
Development bank of South Africa	9 884 757	12 562 021
	17 534 916	27 060 187
The loans are not secured.		
The fair value of borrowings was determined after considering the standard terms and conditions of agreements entered into between the municipality and the relevant financing institutions.		
All loans were obtained in terms of section 45 and 46 of the MFMA.		
Non-current liabilities		
At amortised cost	13 655 833	27 315 485
Current liabilities		
At amortised cost	9 371 245	8 569 764

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

20. Provisions

Reconciliation of provisions - 2023

	Opening Balance	Fair value adjustments	Change in discount factor	Total
Rehabilitation of the Landfill site	11 259 699	(5 338 583)	610 898	6 532 014
Section 56 Salary Adjustments	630 945	-	-	630 945
Performance Bonus	6 367 264	1 255 577	-	7 622 841
Leave	26 841 220	(998 005)	-	25 843 215
	45 099 128	(5 081 011)	610 898	40 629 015

Reconciliation of provisions - 2022

	Opening Balance	Fair value Adjustment	Additions	Interest	Total
Rehabilitation of Landfill sites	13 520 060	(6 779 197)	2 930 181	1 588 655	11 259 699
Section 56 Salary Adjustments	630 945	-	-	-	630 945
Performance bonus	5 502 105	865 159	-	-	6 367 264
Leave	27 798 580	(957 360)	-	-	26 841 220
	47 451 690	(6 871 398)	2 930 181	1 588 655	45 099 128

Non-current liabilities	6 532 014	11 259 699
Current liabilities	34 097 001	33 839 429
	40 629 015	45 099 128

Environmental rehabilitation provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Employee benefit cost provision

A brief description of the nature of the obligation and the expected timing of any resulting outflows of economic benefits or service potential.

An indication of the uncertainties about the amount or timing of those outflows. Where necessary to provide adequate information, an entity shall disclose the major assumptions made concerning future events, as addressed in paragraph .61.

The amount of any expected reimbursement, stating the amount of any asset that has been recognised for that expected reimbursement.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
21. Revenue		
Service charges	841 370 222	812 884 441
Rental of facilities and equipment	1 421 167	1 772 120
Interest received (trading)	174 270 063	187 953 044
Agency services	12 830 186	15 825 892
Licences and permits	1 296	709
Other income	4 245 066	3 578 490
Interest received - investment	12 757 950	5 046 100
Property rates	581 883 095	567 514 048
Surcharges and Taxes	23 783 700	18 153 865
Government grants & subsidies	460 017 030	378 498 131
Fines, Penalties and Forfeits	24 190 761	28 591 747
	2 136 770 536	2 019 818 587

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

Service charges	841 370 222	812 884 441
Rental of facilities and equipment	1 421 167	1 772 120
Interest received (trading)	174 270 063	187 953 044
Agency services	12 830 186	15 825 892
Licences and permits	1 296	709
Other income	4 245 066	3 578 490
Interest received - investment	12 757 950	5 046 100
	1 046 895 950	1 027 060 796

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

Taxation revenue		
Property rates	581 883 095	567 514 048
Surcharges and Taxes	23 783 700	18 153 865
Transfer revenue		
Government grants & subsidies	460 017 030	378 498 131
Fines, Penalties and Forfeits	24 190 761	28 591 747
	1 089 874 586	992 757 791

22. Service charges

Sale of electricity	276 929 989	287 572 525
Sale of water	406 043 335	374 831 752
Sewerage and sanitation charges	75 863 815	70 389 046
Refuse removal	82 533 083	80 091 118
	841 370 222	812 884 441

23. Rental of facilities and equipment

Facilities and equipment		
Rental of facilities	943 774	1 324 722
Municipal housing	477 393	447 398
	1 421 167	1 772 120

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
24. Fines, Penalties and Forfeits		
Building Fines	52 500	32 500
Overdue Books Fines	3 600	8 478
Tender Withdrawal Penalties	528 757	383 943
Traffic Fines	23 461 744	28 166 826
Tampering penalty	144 160	-
	24 190 761	28 591 747
25. Agency services		
Agency fees	12 830 186	15 825 892
The income relates to the services rendered on behalf of the Provincial Government for learner licences, driver licenses and motor vehicle licenses, and the municipality is paid a fee for rendering the services.		
26. Surcharges and Taxes		
Surcharges	23 783 700	18 153 865
27. Other revenue		
Other income	4 245 066	3 578 490
28. Operational revenue		
Town planning and Servitudes	1 344 043	953 258
Building plan fees	644 794	784 315
Cemetery fees	346 432	441 552
Valuation fees	287 500	54 720
Admin fees	341 305	353 294
Photocopies and faxes	164 607	106 967
Refunds	329 508	232 879
Clearance certificates	143 636	143 220
Entrance fees	120 933	108 876
Encroachment fees	71 221	65 286
Development charges	85 491	2 940
Agricultural product's sales	157 078	137 600
Other income	208 518	193 583
	4 245 066	3 578 490
29. Investment revenue		
Interest revenue		
Current and call accounts	12 757 950	5 046 100

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
30. Property rates		
Rates received		
Residential	65 651 023	62 286 590
Business and Commercial	91 408 198	100 481 592
Public Service Infrastructure	916 606	802 602
Small holdings and farms	5 020 905	4 630 767
Mining Properties	423 536 641	403 016 293
Less: Income forgone	(4 650 278)	(3 703 796)
	581 883 095	567 514 048

Valuations R'000

Residential	6 914 392	6 896 566
Business and Commercial	1 824 848	1 831 384
Public Service Infrastructure	32 982	32 921
Municipal	108 524	108 524
Agricultural and Industrial	1 324 125	1 320 116
Mining	7 602 552	7 602 761
Vacant land	358 615	359 340
Public Service Purposes	486 703	470 003
Place of Worship	177 696	177 696
Multi Purpose and Protected Area	5 790	5 790
	18 836 227	18 805 101

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2019. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The new general valuation will be implemented on 01 July 2024.

31. Transfer and subsidies

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
32. Government grants & subsidies		
Operating grants		
Equitable share and other	288 766 396	256 019 116
Capital grants		
Government grants	171 250 634	122 479 015
	460 017 030	378 498 131

Equitable Share

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

Current year receipts	259 031 000	229 859 000
Conditions met - transferred to revenue	(259 031 000)	(229 859 000)
	-	-

INEP

Balance unspent at beginning of year	(3 184 371)	89
Current-year receipts	25 617 000	17 919 000
Conditions met - transferred to revenue	(25 363 790)	(17 919 000)
Adjustments	-	(3 184 460)
	(2 931 161)	(3 184 371)

Grant was received from the department of Mineral Resources and Ener

MIG

Balance unspent at beginning of year	9 772 428	554 219
Current-year receipts	75 708 000	55 000 000
Conditions met - transferred to revenue	(76 463 782)	(51 229 996)
Adjustment	-	5 448 205
	9 016 646	9 772 428

The Municipal Infrastructure Grant (MIG) was allocated for the construction, sewer, and water purification. All current year allocations were fully spent during the year and allocated to revenue votes.

Municipal Disaster Recovery Grant

Balance unspent at beginning of year	4 219	4 219
--------------------------------------	-------	-------

Grant has been received from the Provincial government for any municipal disaster event. A total of R4 219 funds have been withheld.

WSIG

Balance unspent at beginning of year	3 718 962	554 219
Current-year receipt	38 774 585	55 000 000
Conditions met - transferred to revenue	(27 611 229)	(51 229 996)
Adjustment	(4 300 000)	(605 261)
	10 582 318	3 718 962

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

32. Government grants & subsidies (continued)

Grant has been received from Water Services department and a total of R10 582 318 funds have been withheld.

Mining Town

Balance unspent at beginning of year	19 344 839	-
Current-year receipts	77 540 565	36 023 226
Conditions met - transferred to revenue	(68 296 404)	(16 678 387)
	28 589 000	19 344 839

A total of R28 589 000 remains unspent at year-end.

SETA Training

Balance unspent at beginning of year	542 818	542 818
--------------------------------------	---------	---------

The purpose of the Discretionary Grants is to assist the SETA to achieve its objectives.

West Rand District Municipality

Balance unspent at beginning of year	-	755 232
Current-year receipts	2 863 680	1 972 129
Conditions met - transferred to revenue	(2 708 217)	(2 727 361)
	155 463	-

A total of R155 463 remains unspent.

EPWP

Balance unspent at beginning of year	32 288	152 135
Current-year receipts	1 562 000	500 000
Conditions met - transferred to revenue	(1 568 309)	(467 712)
Adjustment	-	(152 135)
	25 979	32 288

The Expanded Public Works Programme (EPWP) grant is received to incentivise municipalities to expand.

FMG

Balance unspent at beginning of year	(3 414)	682 575
Current-year receipts	2 850 000	2 550 000
Conditions met - transferred to revenue	(2 031 597)	(2 549 807)
Other	-	(686 182)
	814 989	(3 414)

The Financial Management Grant is paid by National Treasury to municipalities to assist the financial management reforms required by the MFMA.

Covid-19

Balance unspent at beginning of year	884 602	-
Current-year receipts	2 315 906	-
	3 200 508	884 602

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

32. Government grants & subsidies (continued)

A total of R3 200 508 remains unspent at year-end.

Mayor's Charity Fund

Balance unspent at beginning of year	11 678 609	-
Current-year receipts	2 136 851	-
Conditions met - transferred to revenue	(668 338)	-
	13 147 122	11 678 609

A total of R13 147 122 remains unspent for the Mayor's Charity Fund grant.

Gauteng: Capacity Building

Balance unspent at beginning of year	5 160 625	-
Current-year receipts	19 357 426	-
Conditions met - transferred to revenue	(19 929 678)	-
	4 588 373	5 160 625

A total of R4 588 373 remains unspent for the Capacity Building Grant.

33. Employee related costs

Basic	211 756 163	205 850 213
Bonus	16 200 363	15 266 765
Medical aid - company contributions	32 504 785	31 104 064
UIF	1 671 961	1 458 033
Leave pay provision charge	6 786 030	8 296 290
Defined contribution plans	30 438 582	29 300 845
Travel, motor car, accommodation, subsistence and other allowances	10 095 398	11 305 122
Overtime payments	32 574 468	31 313 680
Long-service awards	3 036 408	4 540 181
Acting allowances	13 304 827	8 489 608
Housing benefits and allowances	5 881 966	4 555 644
Insurance	2 183 032	2 129 795
Bargaining Council	233 732	118 139
Long-term benefits - incentive scheme	17 078 341	13 336 760
	383 746 056	367 065 139

34. Remuneration of councillors

Executive Mayor	1 019 568	883 670
Mayoral Committee Members	9 127 624	6 990 197
Speaker	828 686	731 974
Councillors	14 484 474	13 676 557
	25 460 352	22 282 398

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

34. Remuneration of councillors (continued)

In-kind benefits

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

The Executive Mayor is entitled to stay at the mayoral residence owned by Council at no cost. The Executive Mayor, Speaker and Chief Whip have use of Council owned vehicles for official duties.

The Executive Mayor has full-time VIP protection personnel.

The Speaker has full-time VIP protection personnel.

35. Depreciation and amortisation

Property, plant and equipment	156 031 681	179 289 769
Intangible assets	208 162	(317 309)
	156 239 843	178 972 460

36. Impairment loss

Impairments

Property, plant and equipment	16 523 854	41 845 392
-------------------------------	------------	------------

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.]

[Disclose the following information for the aggregate impairment losses and the aggregate reversals of impairment losses recognised during the period for which no information has otherwise been disclosed:]

The main classes of assets affected by impairment losses are:

The main classes of assets affected by reversals of impairment losses are:

The main events and circumstances that led to the recognition of these impairment losses are as follows:

The main events and circumstances that led to the reversals of these impairment losses are as follows:

37. Finance costs

Interest on provision of Landfill site	610 898	1 588 655
Trade and other payables	138 205 468	75 440 842
Current borrowings	2 732 042	3 511 726
Interest costs- Long Service Awards	2 903 000	2 417 000
	144 451 408	82 958 223

38. Debt impairment

Debt impairment	791 414 976	854 458 724
-----------------	-------------	-------------

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
39. Operational costs		
Advertising	364 254	550 046
Bank charges	3 317 888	2 633 560
Cleaning	269 543	188 632
External audit fees	9 384 354	5 865 294
Consumables	1 161 928	628 412
Donations	-	1 448
Entertainment	11 713	8 092
Hire	1 662 573	2 151 826
Insurance	4 762 939	6 948 538
Conferences and seminars	84 104	-
IT expenses	8 922 101	8 139 757
Fuel and oil	20 180 596	17 488 177
Printing and stationery	1 381 510	612 724
Software expenses	3 705 183	2 872 478
Subscriptions and membership fees	(412 618)	224 003
Telephone and fax	1 928 296	1 690 765
Travel - local	59 718	22 117
Bursaries	595 107	329 717
Membership	4 115 187	7 891 009
Library expenses	837 077	326 094
Other expenses	1 861 310	1 146 171
	64 192 763	59 718 860

40. Bulk purchases

Electricity - Eskom	370 579 936	387 618 623
---------------------	-------------	-------------

Electricity losses

	30 June 2023 - KWH	30 June 2023- Amount	30 June 2022 KWH	30 June 2022 Amount
Units purchased	219 211 705	369 091 093	250 213 148	388 685 397
Units sold	(101 024 883)	(169 721 803)	(116 018 765)	(179 829 085)
Total loss	118 186 822	199 369 290	134 194 383	208 856 312
Comprising of:				
Technical losses	7 091 209	11 962 157	8 051 663	12 531 379
Non-technical losses	111 095 613	187 407 132	126 142 720	196 324 933
Total	118 186 822	199 369 289	134 194 383	208 856 312
Percentage Loss:				
Technical losses	- %	3 %	- %	3 %
Non-technical losses	- %	51 %	- %	51 %
Total	- %	54 %	- %	54 %

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023		2022	
40. Bulk purchases (continued)				
Water losses				
	30 June 2023- Kilo Litres	30 June 2023- Amount	30 June 2022- Kilo Litres	30 June 2022- Amount
Opening balance of water stock	66 137	706 074	66 637	672 413
Units purchased	25 607 434	358 412 965	22 140 349	249 941 388
Units sold	(16 768 359)	(204 238 617)	(17 112 228)	(193 197 054)
Revaluation adjustment on unit price of stock on hand	-	251 728	-	33 662
Closing balance of water stock	(78 637)	(957 802)	(66 137)	(706 074)
Total	8 826 575	154 124 348	5 028 621	56 744 335
Comprising of:				
Technical losses	530 344	6 459 766	301 687	3 404 660
Non-technical losses	8 308 730	101 202 995	4 726 434	53 339 674
Total	8 826 575	154 124 348	5 028 121	56 744 334
Percentage Loss:				
Technical losses	2 %	- %	1 %	- %
Non-technical losses	32 %	- %	21 %	- %
Total	34 %	- %	22 %	- %
41. Contracted services				
Presented previously				
Operating Leases			27 215 271	29 311 945
Specialist Services			53 169 265	47 987 075
Other Contractors			38 591 881	33 839 831
42. Cash generated from operations				
Deficit			(230 814 830)	(337 459 393)
Adjustments for:				
Depreciation and amortisation			156 239 843	178 972 460
Gain on sale of assets and liabilities			2 394 761	21 303 318
Impairment deficit			13 290 739	13 290 739
Debt impairment			791 414 976	854 458 724
Bad debts written off			311 674 426	249 982 841
Movements in retirement benefit assets and liabilities			3 182 749	(311 000)
Movements in provisions			(4 470 113)	(1 770 381)
Other non-cash items			467 070 000	-
Changes in working capital:				
Inventories			(251 728)	(33 661)
Receivables from exchange transactions			(17 201 182)	135 085 640
Consumer debtors			(857 509 528)	2 452 230 687
Other receivables from non-exchange transactions			10 523 144	(25 103 028)
Payables from exchange transactions			255 030 581	335 889 852
VAT			(12 020 423)	(37 261 591)
Unspent conditional grants and receipts			19 784 671	15 189 969
Consumer deposits			3 439 971	(74 564)
			911 778 057	3 854 390 612

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

43. Operating deficit

Operating deficit for the year is stated after accounting for the following:

Loss on sale of property, plant and equipment	(2 394 761)	(21 303 318)
Impairment on property, plant and equipment	16 523 854	41 845 392
Amortisation on intangible assets	208 162	(317 309)
Depreciation on property, plant and equipment	156 031 681	179 289 769
Employee costs	409 206 408	389 347 537

44. Financial instruments

Categories of financial instruments

2023

Financial assets

	Carrying amount	Amortised cost
Consumer debtors	277 481 307	277 481 307
Cash and cash equivalents	158 032 053	158 032 053
	435 513 360	435 513 360

Financial liabilities

	Carrying amount	Amortised cost
Consumer deposits	29 101 902	29 101 902
Other financial liabilities	27 161 460	27 161 460
Trade and other payables from exchange transactions	1 548 332 801	1 548 332 801
Bank overdraft	51 960 133	51 960 133
	1 656 556 296	1 656 556 296

2022

Financial assets

	Carrying amount	Amortised cost
Other receivables from non-exchange transactions	103 734 880	103 734 880
Consumer debtors	141 762 161	141 762 161
Cash and cash equivalents	158 032 053	158 032 053
	403 529 094	403 529 094

Financial liabilities

	Carrying amount	At amortised cost
Finance lease	15 490	15 490
Consumer deposits	25 661 931	25 661 931
Other financial liabilities	35 629 951	35 629 951
Trade and other payables from exchange transactions	1 286 167 964	1 286 167 964
Bank overdraft	51 960 133	51 960 133
	1 399 435 469	1 399 435 469

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
45. Commitments		
Authorised capital expenditure		
Already contracted for but not provided for		
• Infrastructure	94 731 172	285 509 472
• Finance lease	6 004 147	255 299
	100 735 319	285 764 771

Total capital commitments		
Already contracted for but not provided for	100 735 319	285 764 771

This committed expenditure relates to property, plant and equipment and will be financed by retained surpluses backed by existing cash resources, funds internally generated and grant borrowings.

46. Contingencies

Contingent liabilities arising from third party claims and litigation:

Review Application - Decision of Merafong Valuation Appeal Board regarding valuations of Mining Properties	5 000 000	2 000 000
Constitutional Court/High Court: Provision of Water to Mines - AngloGold lodged an application at High Court against the levying of a surcharge by the Municipality on water for industrial use and residential use	10 000 000	10 000 000
Appeal application: Labour Court Review Order	2 300 000	2 300 000
Claim for Pension Benefits	1 437 000	1 437 000
Labour dispute at the CCMA	700 000	-
Review application: Bargaining Council Award	1 619 110	1 619 110
Review application: Condonation ruling	500 000	500 000
Review application: arbitration award	1 100 000	1 100 000
Enforcement of Construction Guarantee: relocation of Khutsong Reservoir with bulk infrastructure	500 000	-
Civil claim: Money stolen	150 000	-
Notice of motion: Application for contempt of court, condonation, compensation for salary disparity and payment of the salary disparity	250 000	-
Notice of motion: review application	250 000	-
Notice of motion: acknowledgement of debt	500 000	-
Warrant of execution	100 000	-
Notice of motion: Application to Compel	500 000	-
Urgent stay application	850 000	-
Urgent interdict // illegal fochville Strike	500 000	-
Urgent interdict // Access to BIQ	500 000	-
	26 756 110	18 956 110

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
47. Related parties		
Related party	Nature of relationship	
Accounting Officers	Refer to accounting officers' report	
Councillors	Refer to General Information page for Councillors names	
Executive Directors	Refer below 46,1	
Close family member of key management	[There were transactions between close family members of key management, as noted below	
Post employment benefit plan for employees of entity and/or other related parties	Refer to note 9	
Members of key management	No other payments are made outside the contractualemployment payments from employment. Refer to below (48.2) for remuneration.	

The following Councillors and/or Management of the municipality and/or close family members of Councillors / Management have relationships with businesses as indicated below:

Name of Related Person	Designation	Description of Related Party Relationship
T.K. Foteng	Ward member	Director of Leshoboro Services (Pty) Ltd
S. Ndolela	SCM	Uncle of Director of Cville Electrical Contractors
M..P. Mbokazi	Traffic	Half brother of Director of Giya Dlozi Trading and Projects

Related party transactions:

Giya Dlozi Trading and Projects

Invoices	R2 071 556.46
Payments	-R 1 924 621.65
Outstanding balance at 30 June 2023	R 146 934.81

46.1 Remuneration of management

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

47. Related parties (continued)

Management class: Executive management

2023

Name	Basic salary	Bonuses and performance related payments	Travel, motor car, Accomodation, subsistence and other allowances	Council contributions to UIF, pension and medical aid funds	Other long-term benefits	Total
Municipal Manager: DD Mabuza	229 874	-	61 868	39 421	-	331 163
Acting Municipal Manager: L Mere	-	-	393 883	2 125	-	396 008
Acting Municipal Manager and Executive Director: Infrastructure Development: SL Mdletshe	1 066 982	-	294 574	382 772	-	1 744 328
Acting Chief Financial Officer: Mr MB Dlamini	-	-	139 202	-	-	139 202
Acting Chief Financial Officer: RJ Magongwa	793 629	66 136	286 112	321 759	39 378	1 507 014
Acting Executive Director: Infrastructure Development - E Shange	793 629	66 136	174 849	334 831	-	1 369 445
Acting Executive Director: Infrastructure Development- N Moyo	793 629	66 136	182 481	342 291	39 402	1 423 939
Acting Municipal Manager and Executive Director; Community Services: SE Mantjane	1 080 933	-	159 146	413 864	86 924	1 740 867
Acting Executive Director: Corporate Services - SB Mazibuko	793 629	66 136	262 902	405 104	40 300	1 568 071
Acting Executive Director Corporate: NA Mbilini	793 629	66 136	159 889	4 194	79 544	1 103 392
Acting Executive Director: Economic Development & Planning - JH Smith	793 629	66 136	236 544	269 135	-	1 365 444
Acting Executive Director Economic Development: NM Jofile	793 629	66 136	170 990	246 251	36 973	1 313 979
	7 933 192	462 952	2 522 440	2 761 747	322 521	14 002 852

2022

Name	Basic salary	Bonuses and performance related payments	Travel, motor car, Accomodation, Substistence and other allowances	Council contributions to UIF, pension and medical aid funds	Total
------	--------------	--	--	---	-------

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

47. Related parties (continued)

Acting Municipal Manager: SL Mdletshe	1 922 537	-	253 031	226 144	2 401 712
Acting Chief Financial Officer: RJ Magongwa	840 131	-	313 196	213 269	1 366 596
Acting Executive Director: Infrastructure Development -N Moyo	788 295	60 915	253 593	227 121	1 329 924
Acting Executive Director: Corporate Services - SB Mazibuko	785 407	63 047	386 681	240 674	1 475 809
Executive Director: Community Services - SE Mantjane	1 020 017	-	149 362	281 956	1 451 335
Acting Executive Director: Economic Development & Planning - JH Smith	768 006	63 047	215 836	240 760	1 287 649
	6 124 393	187 009	1 571 699	1 429 924	9 313 025

48. Prior-year adjustments

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

Statement of financial position

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

			2023	2022	
48. Prior-year adjustments (continued)					
2022					
	Note	As previously reported	Adjustments	Re-classification	Restated
Receivables from exchange transactions		-	-	1 450 940	1 450 940
VAT receivable		96 153 276	10 864 154	-	107 017 430
Receivables from non-exchange transactions		1 098 386	(1 098 386)	25 103 028	25 103 028
Consumer debtors from non exchange		103 734 880	(10 769 635)	(25 103 028)	67 862 217
Consumer debtors		206 142 636	(27 056 872)	(1 450 940)	177 634 824
Cash and cash equivalents		123 675 024	(3 079 511)	1 278 570	121 874 083
Property, plant and equipment		3 363 541 632	(318 620 042)	-	3 044 921 590
Investment property		320 218 730	(102 918 946)	-	217 299 784
Intangible assets		296 494	317 307	-	613 801
Heritage assets		166 842	(2 849)	-	163 993
Finance lease obligation		-	-	(40 863)	(40 863)
Payables from exchange transactions		(1 284 522 731)	(8 779 489)	-	(1 293 302 220)
Consumer deposits		(22 844 540)	(2 817 391)	-	(25 661 931)
Employee benefit obligations (current)		(8 077 000)	877 000	-	(7 200 000)
Unspent conditional grants, receipts and donations		(47 947 736)	(3 779)	-	(47 951 515)
Bank overdraft		-	-	(1 278 570)	(1 278 570)
Long-term liabilities (loans)		(8 569 764)	-	-	(8 569 764)
Provisions (current)		(42 161 376)	889 720	7 432 227	(33 839 429)
Long-term liabilities (loans) - Non-current		(27 101 050)	(255 298)	40 863	(27 315 485)
Provisions		(3 827 472)	-	(7 432 227)	(11 259 699)
Employee benefit obligations - Non-current		135 977 000	-	-	135 977 000
		2 905 953 231	(462 454 017)	-	2 443 499 214

Statement of financial performance

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

		2023	2022		
48. Prior-year adjustments (continued)					
2022					
	Note	As previously reported	Adjustments	Re-classification	Restated
Service charges		812 861 462	22 979	-	812 884 441
Rental of facilities and equipment		1 772 119	-	-	1 772 119
Interest earned- outstanding receivables		-	-	187 953 044	187 953 044
Licences and permits		-	709	-	709
Interest received-call and current account		192 999 144	-	(187 953 044)	5 046 100
Income from Agency fees		15 826 601	-	-	15 826 601
Sale of goods and rendering of services		2 431 268	(2 431 268)	-	-
Operational revenue		812 341	2 766 149	-	3 578 490
Actuarial gains		-	20 066 849	-	20 066 849
Property rates		567 482 865	31 183	-	567 514 048
Surcharges and taxes		19 023 923	(870 058)	-	18 153 865
Government grants and Subsidies		455 651 451	(77 153 320)	-	378 498 131
Fines		26 649 519	1 942 228	-	28 591 747
Depreciation and amortisation		(114 277 458)	(64 695 002)	-	(178 972 460)
Gain on non current		-	17 391	-	17 391
Impairment loss on PPE		-	(41 845 392)	-	(41 845 392)
Employee related costs		367 383 190	276 051	-	367 659 241
Debt impairment		(828 101 282)	(26 357 442)	-	(854 458 724)
Inventory consumed		(196 622 938)	(53 359 903)	-	(249 982 841)
Finance costs		(81 662 572)	(1 295 651)	-	(82 958 223)
Bulk purchases		(387 355 248)	(263 375)	-	(387 618 623)
Contracted services		(86 339 688)	(24 799 163)	-	(111 138 851)
Operating leases		(29 488 581)	29 488 581	-	-
Transfers and subsidies paid		(321 051)	321 051	-	-
Loss on disposal of assets and liabilities		(91 486 124)	70 165 414	-	(21 320 710)
Operational cost		(54 407 863)	(5 310 997)	-	(59 718 860)
Deficit for the year		592 831 078	(173 282 986)	-	419 548 092

Errors

We have adopted the MSCOA template as per National Treasury guidelines which resulted in the adjustments above as well as within the respective notes

The municipality received a disclaimer of audit opinion in the prior years due to AFS balances that were not aligned to the final general ledger and trial balance hence adjustments were made as prior period errors for the amounts that were not recorded in the trial balance used to prepare financial statements.]

The following prior period errors adjustments occurred:

49. Risk management

Financial 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.

50. Going concern

I draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus of R1 948 450 407 and that the municipality's total liabilities exceed its assets by R1 948 450 407.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

50. Going concern (continued)

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

The ability of the municipality to continue as a going concern is dependent on a number of factors. The most significant of these is that the accounting officers continue to procure funding for the ongoing operations for the municipality and that the subordination agreement referred to in note of these annual financial statements will remain in force for so long as it takes to restore the solvency of the municipality.

51. Events after the reporting date

No events after the reporting date were identified by management that will affect the operations of the municipality or the results of those operations significantly.

52. Fruitless and wasteful expenditure

Opening balance as previously reported	168 540 096	94 373 432
Add: Fruitless and wasteful expenditure identified - current	138 444 087	74 166 664
Closing balance	306 984 183	168 540 096

The fruitless expenditure is due to interest charged on overdue accounts of the below entities, the interest is The Fruitless and Wasteful Expenditure are as follows:

	R
• Eskom	84 131 898.79
• Office of the Auditor General	172 250.43
• Rand water	52 317 483.70
• Talis Fleet	897 089.83
• Quill	811 678.24
• Compensation commissioner	78 290.35
• Telkom	35 395.38

53. Irregular expenditure

Opening balance as previously reported	187 235 609	142 940 126
Add: Irregular expenditure - current	62 355 269	49 127 148
Add: Irregular expenditure - prior period	218 020 055	11 299 622
Less: Deviation included in the irregular register- prior period	-	(16 131 287)
Closing balance	467 610 933	187 235 609

54. Additional disclosure in terms of Municipal Finance Management Act

Audit fees

Opening balance	1 024 829	2 636 412
Current year Audit fees	11 315 188	6 802 190
Amount paid - current year	(9 701 107)	(8 413 773)
	2 638 910	1 024 829

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

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

PAYE and UIF

Current year Payroll Deductions	57 325 353	56 873 610
Amount paid - current year	(57 325 353)	(56 873 610)
	-	-

Pension and Medical Aid Deductions

Current year subscription / fee	105 850 786	63 296 527
Amount paid - current year	(105 850 786)	(63 296 527)
	-	-

VAT

VAT receivable	119 010 288	106 989 865
----------------	-------------	-------------

VAT output payables and VAT input receivables are shown in note 13.

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

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

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

Councillors' arrear consumer accounts

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

30 June 2023	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
E.T. Mthembu	1 000	39 893	40 893
N. Wana	2 714	176 371	179 085
D. Segakweng	(2 943)	53 162	50 219
D. Miylibe	(1 652)	36 724	35 072
J. Matabane	(1 465)	28 132	26 667
T.Masiu	(2 117)	23 736	21 619
A.T.R .Motsumi	(1 226)	20 188	18 962
F.A. Motloug	1 819	30 949	32 768
M& M.N Masipa	2 334	7 744	10 078
L. Mangaliso	1 035	-	1 035
	(501)	416 899	416 398

30 June 2022	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
E.T. Mthembu	986	34 009	34 995
N. Wana	600	177 469	178 069
D. Segakweng	(2 586)	69 853	67 267
D. Miylibe	(1 537)	46 883	45 346
J. Matabane	(2 756)	38 081	35 325
T.Masiu	(1 922)	36 023	34 101
A.T.R .Motsumi	(929)	26 641	25 712
M& M.N Masipa	(1 097)	2 501	1 404
L. Mangaliso	(1 505)	43 774	42 269
	(10 746)	475 234	464 488

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

55. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	23 027 078	35 885 249
------------------------------	------------	------------

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.

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

	2023	2022
--	------	------

56. 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 and includes a note to the annual financial statements.

The majority of items mentioned had to be addressed as emergency circumstances. The balance of items were due to circumstances where it was impractical or impossible to follow a competitive bidding process.

Exceptional case	1 282 340	418 171
Single supplier	-	1 300 000
Impractical	419 171	-
Emergency and Impractical	1 079 765	14 413 116
Not obtained three quotations	87 929	-
	2 869 205	16 131 287

57. Segment information

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

57. Segment information (continued)

Segment surplus or deficit, assets and liabilities

2023

	Community Services	Economic development and planning	Infrastructure development	Shared services	Other	Total
Revenue						
Revenue from non-exchange transactions	48 517 153	52 500	171 313 836	1 318 309	844 500 929	1 065 702 727
Revenue from exchange transactions	96 206 478	2 060 676	758 635 495	9 475	26 740 996	883 653 120
Interest on investment	-	-	-	-	12 757 950	12 757 950
Interest earned from receivables	-	-	-	-	174 270 063	174 270 063
Total segment revenue	144 723 631	2 113 176	929 949 331	1 327 784	1 058 269 938	2 136 383 860
Municipality's revenue						2 136 383 860
Expenditure						
Total segment expense	247 841 641	15 763 081	1 080 962 570	130 075 670	652 798 191	2 127 441 153
Interest expense	610 898	-	136 104 964	2 903 000	6 104 431	145 723 293
Depreciation and amortisation	2 763 348	6 535 026	145 314 306	2 243 990	1 375 041	158 231 711
Total segment expenditure	251 215 887	22 298 107	1 362 381 840	135 222 660	660 277 663	2 431 396 157
Total segmental surplus/(deficit)	(106 492 256)	(20 184 931)	(432 432 509)	(133 894 876)	397 992 275	(295 012 297)
Assets						
Segment assets	48 619 567	310 788 420	2 901 631 725	13 472 116	273 155 971	3 547 667 799
Total assets as per Statement of financial Position						3 547 667 799
Liabilities						
Segment liabilities	6 532 014	-	318 430	146 483 120	2 298 330 255	2 451 663 819
Total liabilities as per Statement of financial Position						2 451 663 819

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

57. Segment information (continued)

					Community Services	Infrastructure development
Other information						
Capital expenditure					2 413 914	166 128 503
2022						
	Community Services	Economic development and planning	Infrastructure development	Shared services	Other	Total
Revenue						
Revenue from non-exchange transactions	92 728 144	32 500	255 905 427	1 810 714	639 953 741	990 430 526
Revenue from exchange transactions	81 183 106	3 010 406	732 540 654	447 398	19 338 462	836 520 026
Interest on investments	-	-	-	-	5 046 100	5 046 100
Interest earned from receivables	-	-	-	-	187 953 044	187 953 044
Total segment revenue	173 911 250	3 042 906	988 446 081	2 258 112	852 291 347	2 019 949 696
Municipality's revenue						2 019 949 696
Expenditure						
Total segment expense	250 124 779	37 104 385	990 519 356	122 356 533	688 909 228	2 089 014 281
Interest expense	1 588 655	-	-	2 417 000	78 952 568	82 958 223
Depreciation and amortisation	2 445 422	201 478	197 285 885	501 302	1 041 425	201 475 512
Total segment expenditure	254 158 856	37 305 863	1 187 805 241	125 274 835	768 903 221	2 373 448 016
Total segmental surplus/(deficit)	(80 247 606)	(34 262 957)	(199 359 160)	(123 016 723)	83 388 126	(353 498 320)
Assets						
Segment assets	40 724 510	317 876 503	2 914 726 900	3 681 386	312 171 995	3 589 181 294
Total assets as per Statement of financial Position						3 589 181 294

Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2023

Notes to the Annual Financial Statements

57. Segment information (continued)

Liabilities

Segment liabilities	11 259 699	-	-	143 042 800	2 114 934 253	2 269 236 752
---------------------	------------	---	---	-------------	---------------	---------------

Total liabilities as per Statement of financial Position

2 269 236 752

Other information

Capital expenditure

Infrastructure
development

Other

119 629 966

2 849 049

Reportable Segments for the year ended 30 June 2023

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.