



Merafong City Local Municipality  
(Registration number GT484)  
Annual Financial Statements  
for the year ended 30 June 2024

# Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2024

## General Information

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### 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

The municipality renders energy services, water services, sanitation services, solid waste services and community services.

### Executive committee

Executive Mayor and Chairperson of mayoral committee

N Best

Deputy Executive Mayor

GM Sello ( 01/11/2023)

Speaker

TE Mphithikezi

Chief Whip

T Mokuke

### Members of Mayoral Committee (MMC)

MMC Roads, Stormwater and Public Works

DV Tabane

MMC Health and Social Development

E Tibane

MMC Corporate and Shared Services

GM Sello (01/07/2023 - 28/02/2024)

N Mcetywa (01/03/2024)

MMC Integrated Environmental Management

DM Segakweng

MMC Local Economic, Tourism and Rural Development

GE Mbaliso

MMC Finance

M Moyeni

MMC Public Safety and Transport

N Mcetywa

LI Mangaliso (01/03/2024)

MMC Electricity Gas and Water

LA Mganu

MMC Human Settlement and Land Development

PN Sefako

MMC Sports, Recreation, Arts and Culture

VB Nkwanyana

Councillors

Council Members

Members of the Council

Z Mteto

CY Kgakatsi

L Maritz

TM Mngadi

CS Steenkamp

JDW Zwaart

CMD Rebello

NE Wana

RM Chalatsi

N Letlabika

ET Mtembu

SI Tiharipe

VM Tyelingane

M Ngqele

AM Phenduka

LM Mpupu

TD Molatlhegi

DL Malibiye

GE Mbaliso

M Naki

J Matabane

VT Mqotha (01/12/2023)

PE Phalatse (01/12/2023)

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## General Information

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	L Legabe N Luqhide (01/02/2024) S Mbecheni B Van der Berg PEB O'Riley DF Van Der Hoff RG Lubbe M Ntilane C Mtshatsheni M Ciliza VB Nwanyana NW Gcwalangobuthi ATR Motsumi D Harman FA Motloun
<b>Grading of local authority</b>	4
<b>Chief Finance Officer (CFO)</b>	PM Makhubela (12 December 2023) MB Dlamini (1 July 2023- 28 November 2023)
<b>Accounting Officer</b>	DD Mabuza
<b>Business address</b>	Halite Street, Carletonville, 2500 Telephone number: 018 788 9500 Fax number: 018 786 1105 Website address: <a href="http://www.merafong.gov.za">www.merafong.gov.za</a>
<b>Postal address</b>	PO Box 3, Carletonville, 2500
<b>Bankers</b>	First National Bank and Nedbank
<b>Auditors</b>	Auditor-General of South Africa (AGSA)
<b>Attorneys</b>	Panel of Attorneys appointed De Swart, Myambo, Hlahla Attorneys LP Skosana Attorneys Madhlopa & Thenga Incorporated Mcedisi, Ndlovu & Sedumedi Incorporated Moodie & Robertson Mosire Tsiane Attorneys Ntsoane Attorneys Incorporated Raphela Attorneys Incorporated Strauss Daly Incorporated TA Dipudi Attorneys

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### Abbreviations used:

COID	Compensation for Occupational Injuries and Diseases
DBSA	Development Bank of South Africa
GRAP	Generally Recognised Accounting Practice
HDF	Housing Development Fund
MFMA	Municipal Finance Management Act
mSCOA	Municipal Standard Chart of Accounts
AGSA	Auditor General of South Africa
CFO	Chief Financial Officer
SCM	Supply Chain Management
<b>MPAC</b>	<b>Municipal Public Accounts Committee</b>
<b>VAT</b>	<b>Value Added Tax</b>
<b>WSIG</b>	<b>Water Services Infrastructure Grant</b>
<b>EPWP</b>	<b>Expanded Public Works Programme</b>
<b>FMG</b>	<b>Finance Management Grant</b>
<b>VIP Protection</b>	<b>VIP Protection</b>
<b>SALGBC</b>	<b>South African Local Government Bargaining Council</b>

# **Merafong City Local Municipality**

(Registration number GT484)

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

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

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

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

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

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

The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2025 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

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

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's 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 which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2024 and were signed on its behalf by:

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**Accounting Officer**  
**DD Mabuza**

# **Merafong City Local Municipality**

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Annual Financial Statements for the year ended 30 June 2024

The accounting officer submits his report for the year ended 30 June 2024.

## **1. Review of activities**

### **Main business and operations**

Net deficit of the municipality was R 589 149 696 (2023: R 214 766 469)

## **2. Accounting Officers' interest in contracts**

The municipality has a policy relating to declaration of interest in contracts and other related transactions. This was adhered to in that the relevant officials with interests in SCM related transactions declared (both potential and existing) declared their interests.

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## **3. 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.

## **4. Corporate governance**

### **General**

The accounting officer is committed to business integrity, transparency and professionalism in all its activities. As part of this commitment, the accounting officer supports the highest standards of corporate governance and the ongoing development of best practice.

The municipality confirms and acknowledges its responsibility to total compliance with the Code of Corporate Practices and Conduct ("the Code") laid out in the King Report on Corporate Governance for South Africa 2002. The accounting officer discusses the responsibilities of management in this respect, at Management meetings and monitor the municipality's compliance with the code on a three monthly basis.

The salient features of the municipality's adoption of the Code is outlined below:

### **Council**

The Council:

- retains full control over the municipality, its plans and strategy;
- acknowledges its responsibilities as to strategy, compliance with internal policies, external laws and regulations, effective risk management and performance measurement, transparency and effective communication both internally and externally by the municipality.

### **Remuneration**

The upper limits of the remuneration of the councillors, are determined in terms of Government Notices issued by the Minister of Co-operative Governance and Traditional Affairs, as required by the Remuneration of Public Office Bearers Act No. 20 of 1998.

### **Committee meetings**

The accounting officer meets on a scheduled basis with the Executive Committee as well as the Audit & Performance Audit Committee. The Committee Chairpersons have access to all members of management (Section 57 Managers) of the municipality. Furthermore, the accounting officer meets with the Municipal Public Accounts Committee (MPAC) as and when the need arises.

### **Audit and risk committee**

The Chairperson of the audit and risk committee is an independent audit committee member. The committee met on a regular basis during the financial year to review matters necessary to fulfil its role.

In terms of Section 166 of the Municipal Finance Management Act, Merafong City Local Municipality must appoint members of the Audit, Risk and Performance Committee.

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## **. Corporate governance (continued)**

### **Internal audit**

The municipality has an internal audit function, which is in compliance with the Municipal Finance Management Act, 2003 section 165.

### **5. Bankers**

NedBank and First National Bank are the municipality's bankers. The municipality's bankers changed from First National Bank to Nedbank during the current financial year.

### **6. Auditors**

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

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**Accounting Officer**  
**DD Mabuza**

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Statement of Financial Position as at 30 June 2024

	Note(s)	2024	2023 Restated*
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	8	674 523	957 802
Receivables from exchange transaction	11	10 670 275	9 193 641
Receivables from non-exchange transactions	9&12	8 266 226	9 051 506
VAT receivable	9&13	96 100 987	120 147 136
Consumer debtors from exchange transactions	15	234 208 368	247 561 361
Consumer debtors from non-exchange transactions	9&10	47 810 658	29 919 946
Cash and cash equivalents	14	171 957 408	161 200 434
		<b>569 688 445</b>	<b>578 031 826</b>
<b>Non-Current Assets</b>			
Investment property	2	201 145 265	268 264 611
Property, plant and equipment	3	3 226 621 109	3 191 588 637
Intangible assets	4	18 593 242	1 127 019
Heritage assets	5	190 360	190 360
		<b>3 446 549 976</b>	<b>3 461 170 627</b>
<b>Total Assets</b>		<b>4 016 238 421</b>	<b>4 039 202 453</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Borrowings	16	10 348 750	9 420 092
Finance lease obligation	17	2 423 787	2 786 396
Payables from exchange transactions	6	1 571 855 002	1 607 403 277
Consumer deposits		26 787 582	25 391 158
Employee benefit obligation	7	8 342 000	8 879 000
Unspent conditional grants and receipts	18	76 798 471	47 893 757
Provisions	19	44 747 984	38 755 907
Municipal Debt Relief Liability	20	150 130 738	-
		<b>1 891 434 314</b>	<b>1 740 529 587</b>
<b>Non-Current Liabilities</b>			
Borrowings	16	7 323 900	17 674 054
Finance lease obligation	17	638 631	3 034 269
Employee benefit obligation	7	143 958 000	131 848 000
Provisions	19	1 424 909	1 331 567
Municipal Debt Relief Liability	20	366 509 582	-
		<b>519 855 022</b>	<b>153 887 890</b>
<b>Total Liabilities</b>		<b>2 411 289 336</b>	<b>1 894 417 477</b>
<b>Net Assets</b>		<b>1 604 949 085</b>	<b>2 144 784 976</b>
Accumulated surplus		1 604 949 085	2 144 784 976
<b>Total Net Assets</b>		<b>1 604 949 085</b>	<b>2 144 784 976</b>

\* See Note 53 & 52



# Merafong City Local Municipality

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## Statement of Financial Performance

	Note(s)	2024	2023 Restated*
<b>Revenue</b>			
<b>Revenue from exchange transactions</b>			
Service charges	22	887 310 790	841 370 222
Rental of facilities and equipment	23	2 903 509	1 421 167
Interest earned - outstanding debtors	24	310 770 865	174 270 063
Agency services	25	10 991 348	12 831 481
Operational revenue	26	2 094 796	4 245 066
Interest earned - external investments	27	19 709 292	12 817 711
Actuarial gains	7	2 480 078	17 298 426
<b>Total revenue from exchange transactions</b>		<b>1 236 260 678</b>	<b>1 064 254 136</b>
<b>Revenue from non-exchange transactions</b>			
<b>Taxation revenue</b>			
Property rates	28	765 344 212	581 883 095
<b>Transfer revenue</b>			
Government grants & subsidies	29	470 969 707	481 549 030
Public contributions and donations	30	13 534 071	2 251 700
Fines, Penalties and Forfeits	31	34 364 545	24 190 761
Gains on landfill	19	429 725	-
Municipal Debt Relief	32	213 206 718	-
Reversal of impairment	36	79 054 581	-
<b>Total revenue from non-exchange transactions</b>		<b>1 576 903 559</b>	<b>1 089 874 586</b>
<b>Total revenue</b>	21	<b>2 813 164 237</b>	<b>2 154 128 722</b>
<b>Expenditure</b>			
Employee related costs	33	(414 851 365)	(370 455 056)
Remuneration of councillors	34	(26 331 648)	(25 460 352)
Depreciation and amortisation	35	(150 555 235)	(141 761 395)
Impairment losses	36	(50 675 567)	-
Finance costs	37	(197 304 290)	(156 826 408)
Debt Impairment	38	(1 276 300 860)	(807 910 690)
Bulk purchases	39	(466 244 315)	(370 579 936)
Contracted services	40	(256 850 363)	(116 953 473)
Loss on disposal of assets and liabilities	41	(67 508 416)	(3 080 693)
Inventory consumed	42	(353 611 336)	(311 674 426)
Operational cost	43	(81 456 566)	(64 192 762)
<b>Total expenditure</b>		<b>(3 341 689 961)</b>	<b>(2 368 895 191)</b>
<b>Deficit for the year</b>		<b>(528 525 724)</b>	<b>(214 766 469)</b>

\* See Note 53 & 52

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## Statement of Changes in Net Assets

	Accumulated surplus / deficit	Total net assets
.		
Opening balance as previously reported	2 179 265 237	2 179 265 237
Adjustments		
Prior year adjustments 53	180 286 208	180 286 208
<b>Balance at 01 July 2022 as restated*</b>	<b>2 359 551 445</b>	<b>2 359 551 445</b>
Changes in net assets deficit for the year	(214 766 469)	(214 766 469)
Total changes	(214 766 469)	(214 766 469)
<b>Restated* Balance at 01 July 2023</b>	<b>2 144 481 378</b>	<b>2 144 481 378</b>
Changes in net assets deficit for the year	(528 525 724)	(528 525 724)
Total changes	(528 525 724)	(528 525 724)
<b>Balance at 30 June 2024</b>	<b>1 604 949 085</b>	<b>1 604 949 085</b>
Note(s)		

\* See Note 53 & 52

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## Cash flow statement

	Note(s)	2024	2023 Restated*
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Services charges and rental income		711 782 005	826 761 512
Agency fees		10 991 348	12 831 481
Grants		442 064 630	581 940 853
Interest income		19 709 292	12 817 711
Property rates and fines		57 740 066	57 473 566
Other receipts		2 094 796	4 245 066
		<u>1 244 382 137</u>	<u>1 496 070 189</u>
<b>Payments</b>			
Employee costs		(453 911 982)	(395 877 689)
Suppliers		(482 698 171)	(722 735 654)
Finance costs		(121 676 479)	(138 205 468)
		<u>(1 058 286 632)</u>	<u>(1 256 818 811)</u>
<b>Net cash flows from operating activities</b>	45	<b><u>186 095 505</u></b>	<b><u>239 251 378</u></b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	3	(141 049 537)	(188 265 355)
Purchase of investment property	2	(19 837 233)	-
<b>Net cash flows from investing activities</b>		<b><u>(160 886 770)</u></b>	<b><u>(188 265 355)</u></b>
<b>Cash flows from financing activities</b>			
Finance lease payments		(3 143 013)	(2 022 943)
Repayment of other financial liabilities		(11 308 748)	(11 523 145)
<b>Net cash flows from financing activities</b>		<b><u>(14 451 761)</u></b>	<b><u>(13 546 088)</u></b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b><u>10 756 974</u></b>	<b><u>37 439 935</u></b>
Cash and cash equivalents at the beginning of the year		161 200 434	123 760 499
<b>Cash and cash equivalents at the end of the year</b>	14	<b><u>171 957 408</u></b>	<b><u>161 200 434</u></b>

The accounting policies on pages 15 to 53 and the notes on pages 54 to 113 form an integral part of the annual financial statements.

\* See Note 53 & 52

# Merafong City Local Municipality

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## Statement of Budget versus Actual

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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### Statement of Financial Performance

#### Revenue

##### Revenue from exchange transactions

Service charges	956 286 006	(14 591 222)	<b>941 694 784</b>	887 310 790	<b>(54 383 994)</b>	60.1
Rental of facilities and equipment	1 546 583	(23 646)	<b>1 522 937</b>	2 903 509	<b>1 380 572</b>	60.2
Interest earned - outstanding debtors	278 361 629	245 362 592	<b>523 724 221</b>	310 770 865	<b>(212 953 356)</b>	60.3
Agency services	-	-	-	10 991 348	<b>10 991 348</b>	60.4
Operational revenue	14 186 698	679 683	<b>14 866 381</b>	2 094 796	<b>(12 771 585)</b>	
Interest earned from external investments	8 140 459	6 705 800	<b>14 846 259</b>	19 709 292	<b>4 863 033</b>	60.5
<b>Total revenue from exchange transactions</b>	<b>1 258 521 375</b>	<b>238 133 207</b>	<b>1 496 654 582</b>	<b>1 233 780 600</b>	<b>(262 873 982)</b>	

##### Revenue from non-exchange transactions

##### Taxation revenue

Property rates	620 246 441	75 224 051	<b>695 470 492</b>	765 344 212	<b>69 873 720</b>	60.6
Licences and Permits (Non-exchange)	20 001 171	734	<b>20 001 905</b>	-	<b>(20 001 905)</b>	

##### Transfer revenue

Government grants & subsidies	345 103 494	(1 234 564)	<b>343 868 930</b>	470 969 707	<b>127 100 777</b>	
Public contributions and donations	-	-	-	13 534 071	<b>13 534 071</b>	60.7
Fines, Penalties and Forfeits	5 125 541	(3 033 311)	<b>2 092 230</b>	34 364 545	<b>32 272 315</b>	60.8
Gains on landfill	-	-	-	429 725	<b>429 725</b>	
Municipal Debt Relief	-	-	-	213 206 718	<b>213 206 718</b>	60.9
Reversal of impairment loss	-	-	-	79 054 581	<b>79 054 581</b>	

<b>Total revenue from non-exchange transactions</b>	<b>990 476 647</b>	<b>70 956 910</b>	<b>1 061 433 557</b>	<b>1 576 903 559</b>	<b>515 470 002</b>	
<b>Total revenue</b>	<b>2 248 998 022</b>	<b>309 090 117</b>	<b>2 558 088 139</b>	<b>2 810 684 159</b>	<b>252 596 020</b>	

#### Expenditure

Employee realted cost	(401 337 823)	(23 363 309)	<b>(424 701 132)</b>	(414 851 365)	<b>9 849 767</b>	60.10
Remuneration of councillors	(27 763 620)	343 773	<b>(27 419 847)</b>	(26 331 648)	<b>1 088 199</b>	
Depreciation and amortisation	(113 324 455)	(42 675 545)	<b>(156 000 000)</b>	(150 555 235)	<b>5 444 765</b>	60.11
Impairment of assets	-	-	-	(50 675 567)	<b>(50 675 567)</b>	
Finance costs	(122 131 355)	42 882 136	<b>(79 249 219)</b>	(197 304 290)	<b>(118 055 071)</b>	60.12
Debt Impairment	(500 000 000)	(158 904 468)	<b>(658 904 468)</b>	(1 276 300 860)	<b>(617 396 392)</b>	60.13
Bulk purchases	(443 612 453)	(244 361 245)	<b>(687 973 698)</b>	(466 244 315)	<b>221 729 383</b>	60.14
Contracted Services	(91 290 816)	(14 261 332)	<b>(105 552 148)</b>	(256 850 363)	<b>(151 298 215)</b>	60.15
Transfers and Subsidies	(1 040 000)	-	<b>(1 040 000)</b>	-	<b>1 040 000</b>	
Inventory consumed	(314 978 454)	(7 246 313)	<b>(322 224 767)</b>	(353 611 336)	<b>(31 386 569)</b>	
General Expenses	(102 765 084)	21 013 853	<b>(81 751 231)</b>	(81 456 566)	<b>294 665</b>	
Irrecoverable debts written off	(130 663 987)	130 663 987	-	-	-	
<b>Total expenditure</b>	<b>(2 248 908 047)</b>	<b>(295 908 463)</b>	<b>(2 544 816 510)</b>	<b>(3 274 181 545)</b>	<b>(729 365 035)</b>	

# Merafong City Local Municipality

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## Statement of Budget versus Actual

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
<b>Operating deficit</b>	<b>89 975</b>	<b>13 181 654</b>	<b>13 271 629</b>	<b>(463 497 386)</b>	<b>(476 769 015)</b>	
Loss on disposal of assets	-	2 394 761	<b>2 394 761</b>	(67 508 416)	<b>(69 903 177)</b>	
Actuarial gains/losses	-	-	-	2 480 078	<b>2 480 078</b>	
	-	<b>2 394 761</b>	<b>2 394 761</b>	<b>(65 028 338)</b>	<b>(67 423 099)</b>	
<b>Deficit before taxation</b>	<b>89 975</b>	<b>15 576 415</b>	<b>15 666 390</b>	<b>(528 525 724)</b>	<b>(544 192 114)</b>	
<b>Capital Expenditure</b>						
Transfer recognised-Capital	197 900 000	30 547 480	<b>228 447 480</b>	139 095 528	<b>(89 351 952)</b>	
Public contributions and donations	-	-	-	6 226 357	<b>6 226 357</b>	60.28
Internally generated funds	13 310 000	-	<b>13 310 000</b>	31 993 031	<b>18 683 031</b>	60.29
<b>Total capital expenditure</b>	<b>211 210 000</b>	<b>30 547 480</b>	<b>241 757 480</b>	<b>177 314 916</b>	<b>64 442 564</b>	

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## Statement of Budget versus Actual

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
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### Statement of Financial Position

#### Assets

##### Current Assets

Inventories	-	107 857	<b>107 857</b>	674 523	<b>566 666</b>	60.16
Receivables from exchange transaction	655 999 000	(500 349 000)	<b>155 650 000</b>	244 878 643	<b>89 228 643</b>	60.17
Receivables from non-exchange transactions	185 050 000	(69 804 000)	<b>115 246 000</b>	56 076 884	<b>(59 169 116)</b>	60.18
VAT receivable	346 533 000	(33 256 000)	<b>313 277 000</b>	96 939 978	<b>(216 337 022)</b>	60.19
Cash and cash equivalents	(276 340 000)	425 747 000	<b>149 407 000</b>	171 957 408	<b>22 550 408</b>	60.22
	<b>911 242 000</b>	<b>(177 554 143)</b>	<b>733 687 857</b>	<b>570 527 436</b>	<b>(163 160 421)</b>	

##### Non-Current Assets

Investment property	(3 577 000)	220 418 000	<b>216 841 000</b>	201 145 265	<b>(15 695 735)</b>	
Property, plant and equipment	(149 110 000)	3 307 746 000	<b>3 158 636 000</b>	3 244 072 253	<b>85 436 253</b>	60.23
Intangible assets	(7 474 000)	6 804 000	<b>(670 000)</b>	18 593 242	<b>19 263 242</b>	60.24
Heritage assets	-	-	-	190 360	<b>190 360</b>	
	<b>(160 161 000)</b>	<b>3 534 968 000</b>	<b>3 374 807 000</b>	<b>3 464 001 120</b>	<b>89 194 120</b>	

#### Total Assets

**751 081 000 3 357 413 857 4 108 494 857 4 034 528 556 (73 966 301)**

#### Liabilities

##### Current Liabilities

Borrowings	-	13 521 000	<b>13 521 000</b>	10 348 750	<b>(3 172 250)</b>	
Finance lease obligation	-	-	-	2 423 787	<b>2 423 787</b>	
Payables from exchange transactions	104 591 000	1 474 562 000	<b>1 579 153 000</b>	1 571 855 002	<b>(7 297 998)</b>	
VAT payable	401 365 000	(262 514 000)	<b>138 851 000</b>	-	<b>(138 851 000)</b>	60.19
Consumer deposits	-	-	-	26 787 582	<b>26 787 582</b>	60.25
Employee benefit obligation	-	-	-	8 342 000	<b>8 342 000</b>	60.26
Unspent conditional grants and receipts	-	-	-	76 798 471	<b>76 798 471</b>	60.27
Provisions	-	39 388 000	<b>39 388 000</b>	44 747 984	<b>5 359 984</b>	
Municipal Debt Relief Liability	-	-	-	150 130 738	<b>150 130 738</b>	60.28
	<b>505 956 000</b>	<b>1 264 957 000</b>	<b>1 770 913 000</b>	<b>1 891 434 314</b>	<b>120 521 314</b>	

##### Non-Current Liabilities

Borrowings	-	-	-	7 323 900	<b>7 323 900</b>	
Finance lease obligation	-	-	-	638 631	<b>638 631</b>	
Employee benefit obligation	-	-	-	143 958 000	<b>143 958 000</b>	60.26
Provisions	-	-	-	1 424 909	<b>1 424 909</b>	
Municipal Debt Relief Liability	-	-	-	366 509 582	<b>366 509 582</b>	60.28
	-	-	-	<b>519 855 022</b>	<b>519 855 022</b>	

#### Total Liabilities

**505 956 000 1 264 957 000 1 770 913 000 2 411 289 336 640 376 336**

#### Net Assets

**245 125 000 2 092 456 857 2 337 581 857 1 623 239 220 (714 342 637)**

# Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2024

## Statement of Budget versus Actual

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
.						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Accumulated surplus	245 125 000	2 092 456 857	<b>2 337 581 857</b>	1 634 180 628	<b>(703 401 229)</b>	

# Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

	Note(s)	2024	2023
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### 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.

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

These accounting policies are consistent with the previous period.

#### 1.2 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**

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Annual Financial Statements for the year ended 30 June 2024

## **Accounting Policies**

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### **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 19 - 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 7.

#### **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.

# Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

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### 1.5 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment of statutory receivables

If there is an indication that a statutory receivable, or a group of statutory receivables, may be impaired, the municipality measures and impairment loss. The impairment loss is measured 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, are reduced, either directly or through the use of an allowance account. The amount of the loss is recognised in surplus or deficit.

In estimating the future cash flows, the 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 municipality 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 are 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.

#### Accounting for adjustments to revenue

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

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

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

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

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

- (a) has not followed a proper due process to promulgate the tariff, basis, percentage or formula to charge the revenue; and/or
- (b) incorrectly applied the tariff, basis, percentage or formula in charging revenue.

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

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

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

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

### 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.

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

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### 1.6 Investment property (continued)

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

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

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

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

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

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, its 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.

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.

# Merafong City Local Municipality

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## Accounting Policies

### 1.7 Property, plant and equipment (continued)

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

Item	Depreciation method	Average useful life
Roads and stormwater	Straight-line	3-100 Years
Electricity	Straight-line	5-80 Years
Water	Straight-line	7-100 Years
Sewerage	Straight-line	7-100 Years
Buildings	Straight-line	7-100 Years
Office equipment	Straight-line	3-30 Years
Transport assets	Straight-line	4- 25 Years
Furniture and fittings	Straight-line	3-30 Years
Plant and equipment	Straight-line	4-50 Years
Computer equipment	Straight-line	5-20 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 3).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 3).

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

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### 1.8 Site restoration and dismantling cost

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

If the related asset is measured using the cost model:

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

If the related asset is measured using the revaluation model:

- (a) changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability (subject to (b)) is credited to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit
  - an increase in the liability is recognised in surplus or deficit, except that it is debited to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.
- (b) in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit; and
- (c) a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit or net assets under (a). If a revaluation is necessary, all assets of that class are revalued.

### 1.9 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.

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

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### 1.9 Intangible assets (continued)

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

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.

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

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### 1.10 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.

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

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### 1.10 Heritage assets (continued)

#### 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.

### 1.11 Financial instruments

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

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

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

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

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

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

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

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

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### 1.11 Financial instruments (continued)

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

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

A financial asset is:

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

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

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

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

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

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

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

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

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

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

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

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

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



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### 1.11 Financial instruments (continued)

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

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

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

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

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

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

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### 1.11 Financial instruments (continued)

#### Classification

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

Class	Category
Receivables from exchange transactions	Financial asset measured at amortised cost
Consumer debtors from non-exchange	Financial asset measured at amortised cost
Cash and cash equivalents	Financial asset measured at amortised cost
Other short term receivables	Financial asset measured at amortised cost

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

Class	Category
Payables from exchange transactions	Financial liability measured at amortised cost
Finance lease obligation	Financial liability measured at amortised cost
Consumer deposits	Financial liability measured at amortised cost
Other short term payables	Financial liability measured at amortised cost
Borrowings	Financial liability measured at amortised cost

#### Initial recognition

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

#### Initial measurement of financial assets and financial liabilities

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

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

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

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

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

#### Fair value measurement considerations

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

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### 1.11 Financial instruments (continued)

#### Reclassification

The municipality does not reclassify a financial instrument while it is issued or held unless it is:

- combined instrument that is required to be measured at fair value; or
- an investment in a residual interest that meets the requirements for reclassification.

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

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

#### Gains and losses

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

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

#### Impairment and uncollectability of financial assets

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

#### Financial assets measured at amortised cost:

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

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

The municipality assesses the financial assets for impairment individually, when assets are individually significant, or collectively for financial assets that are not individually significant. Where no objective evidence of impairment exists for an individually assessed asset (whether individually significant or not), the municipality includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised, are not included in the collective assessment for impairment.

For collective assessments of impairment, assets with similar characteristics are grouped together. The credit risk characteristics are indicative of the debtors' ability to pay all amounts due according to contractual terms.

In making this assessment, management may consider the following indicators as guidance for possible impairment:

- Significant financial difficulty experienced by the debtor;
- Delays in payments (including interest payments) or failure to pay / defaults;
- The probability that the borrower / debtor will enter sequestration (bankruptcy);
- Observable historical data indicating that there is a decrease in the estimated future cash flows that will be received by the municipality from a group of financial assets since the initial recognition of those assets;
- The disappearance of an active market for that financial asset because of financial difficulties;
- Accounts in arrears for a period longer than the initial estimated repayment period;

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### 1.11 Financial instruments (continued)

- Accounts with a provision factor of more than 10; and
- Accounts handed over for collection.

Management considers all the indicators above as guidance but only uses the indicators for which there is sufficient information to make the assessment for possible or actual impairment.

#### Derecognition

##### Financial assets

The municipality derecognises financial assets using trade date accounting.

The municipality derecognises a financial asset only when:

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

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

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

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

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

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

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

##### Financial liabilities

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

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### **1.11 Financial instruments (continued)**

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

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

#### **Presentation**

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

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

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

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

### **1.12 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.

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## Accounting Policies

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### 1.12 Statutory receivables (continued)

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 | Value Added Tax Act no 89 of 1991               |
| - Property rates  | Municipal Property Rates Act no 6 of 2004       |
| - Traffic fine    | Criminal Procedure Act no 51 of 1977            |
|                   | Administrative Adjudication of Road Traffic Act |

Statutory receivables are accounted for as follows:

**Property rates** are levied in terms of the Municipal Property Rates Act, hence this is therefore recognised as a statutory receivable. The receivable is calculated by applying the Council approved rates against the valuation of individual properties within the municipality's jurisdiction. Council approved rebates and exemptions are further applied to reduce the receivable. Interest is applied to the outstanding debt. All outstanding debts from levied property rates are charged an interest of 11.75% which was waived from January 2024 to April 2024 due to the municipality not being able to send out consumer statements.

The basis of impairment takes into account the following:

The estimates were determined in accordance with the debt impairment methodology of the municipality, supplemented by experience of past practices and statistics in relation to uncollectable debt. In assessing whether statutory receivables are impaired, management considered individual receivables that may be impaired

The municipality had significant impairment losses arising from impairment of outstanding amount from the mines for property rates due to a legal case on the valuation of properties wherein the court granted an interim order that the mines pay the municipality only 50% of the invoiced amount and the other 50% be paid in a trust account which the municipality has no control over. The municipality has impaired the full amount of outstanding debt due to the court order that takes 50% and the 50% we supposed to receive has been impaired at yearend.

**Traffic fines** are issued to offenders in terms of the Criminal Procedures Act, hence this is therefore recognised as a statutory receivable. The receivable is calculated by determining the value of the fine to be paid on initial recognition, and accounting for subsequent measurement by taking into account reductions and discounts made to the value of the fine payable in terms of the court of law. No interest is charged on outstanding fines, and any additional penalties applied by the court are paid by the offender to the court directly and are therefore not considered to be revenue for the municipality.

### Recognition

The municipality recognises statutory receivables as follows:

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

### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

### Subsequent measurement

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

- Interest or other charges that may accrued on receivable (where applicable)
- Impairment losses and
- Amounts derecognised.

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### 1.12 Statutory receivables (continued)

#### 12.1.1 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.

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

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### 1.12 Statutory receivables (continued)

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

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

### 1.13 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.

### 1.14 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.

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.



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### 1.14 Inventories (continued)

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

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

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

When inventories is sold, the carrying amount of that inventories 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 inventories to net realisable value or current replacement cost and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories, arising from an increase in net realisable value or current replacement cost, are recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

### 1.15 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes.

Cash and cash equivalents comprise bank balances, cash on hand, deposits held at call with banks and other short-term highly liquid investments with original maturities of three months or less which are available on demand.

Some equity investments are included in cash equivalents when they are, in substance, cash equivalents.

Bank overdrafts which are repayable on demand forms an integral part of the entity's cash management activities, and as such are included as a component of cash and cash equivalents.

### 1.16 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.

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### 1.16 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.

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### 1.16 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

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## Accounting Policies

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### 1.16 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

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## Accounting Policies

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### 1.16 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.

### 1.17 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.

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## Accounting Policies

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### 1.17 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.

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## **Accounting Policies**

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### **1.17 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.

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## **Accounting Policies**

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### **1.17 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.

### **1.18 Employee benefits**

Employee benefits are all forms of consideration given by the entity 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.



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### 1.18 Employee benefits (continued)

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

#### Post-employment benefits: Defined contribution plans

Defined contribution plans are post-employment benefit plans under which the entity 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 entity during a reporting period, the entity recognises the contribution payable to a defined contribution plan in exchange for that service:

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

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## Accounting Policies

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### 1.18 Employee benefits (continued)

#### Post-employment benefits: Defined benefit plans

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

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

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 entity's informal practices. Informal practices give rise to a constructive obligation where the entity has no realistic alternative but to pay employee benefits. An example of a constructive obligation is where a change in the entity's informal practices would cause unacceptable damage to its relationship with employees.

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

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

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

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

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

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

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

- the date when service by the employee first leads to benefits under the plan (whether or not the benefits are conditional on further service); until

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## Accounting Policies

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### 1.18 Employee benefits (continued)

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

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

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## Accounting Policies

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### 1.18 Employee benefits (continued)

#### Termination benefits

The entity recognises termination benefits as a liability and an expense when the entity is demonstrably committed to either:

- terminate the employment of an employee or group of employees before the normal retirement date; or
- provide termination benefits as a result of an offer made in order to encourage voluntary redundancy.

The entity is demonstrably committed to a termination when the entity has a detailed formal plan for the termination and is without realistic possibility of withdrawal. The detailed plan includes [as a minimum]:

- the location, function, and approximate number of employees whose services are to be terminated;
- the termination benefits for each job classification or function; and
- the time at which the plan will be implemented.

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

Where termination benefits fall due more than 12 months after the reporting date, they are discounted using an appropriate discount rate. The rate used to discount the benefit reflects the time value of money. The currency and term of the financial instrument selected to reflect the time value of money is consistent with the currency and estimated term of the benefit.

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

### 1.19 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.

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 49.

#### 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 1.16 and 1.17.

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.

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## **Accounting Policies**

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### **1.20 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.

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## Accounting Policies

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### 1.21 Revenue from exchange transactions

Revenue, excluding value-added taxation where applicable, is derived from a variety of sources which include rates levied, grants from other tiers of government and revenue from trading activities and other services provided.

#### Recognition and measurement

The Municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the Municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Furthermore, services rendered are recognised by reference to the stage of completion of the transaction at the reporting date.

Revenue is measured at the fair value of the consideration received or receivable. Revenue is reduced for estimated customer returns, stock rotation, price protection, rebates and other similar allowances.

Revenue from exchange transactions refers to revenue that accrued to the Municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the Municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

#### Service Charges – exchange revenue

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. 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.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property, regardless of whether or not all containers are emptied during the month.

Service charges from sewerage and sanitation are based on the type of service and the number of sewer connections on all developed property, using the tariffs approved by Council and are levied monthly.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

#### Pre-paid Electricity – exchange revenue

Revenue from the sale of electricity pre-paid meter cards are recognised at the point of sale. Revenue from the sale of electricity prepaid meter cards is recognised based on an estimate of the prepaid electricity consumed as at the reporting date.

#### Sale of goods – exchange revenue

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

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

#### Revenue Recognition of Unclaimed Deposits – exchange revenue

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## Accounting Policies

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### 1.21 Revenue from exchange transactions (continued)

Unclaimed deposits older than three (3) years are recognised as revenue.

#### 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).

#### Sale of goods

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

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

#### Rendering of services

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

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

#### 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

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## Accounting Policies

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### 1.22 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.



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## Accounting Policies

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### 1.22 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.

#### Fines

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the Municipality is entitled to collect. Subsequent to initial recognition and measurement, the Municipality assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

### Gifts and donations, including goods in-kind

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

#### Services in-kind

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

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

### 1.23 Investment income

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

### 1.24 Borrowing costs

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

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## Accounting Policies

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### 1.24 Borrowing costs (continued)

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

### 1.25 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.

#### 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.

# **Merafong City Local Municipality**

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## **Accounting Policies**

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### **1.26 Comparative figures**

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

Current year comparatives (Budget):

Budget information in accordance with GRAP 1 and 24, has been provided in a separate disclosure note to these financial statements.

Prior year comparatives:

When the presentation or classification of items in the financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly

Certain comparative figures have been reclassified. The nature and reasons for the reclassification and restatement are disclosed in Note 53 "prior year adjustments" to the financial statements.

### **1.27 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

### **1.28 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

### **1.29 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.

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## Accounting Policies

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### 1.29 Irregular expenditure (continued)

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..

### 1.30 Segment information

A segment is an activity of an entity:

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

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

### Measurement

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

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

### 1.31 Research and development expenditure

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

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Annual Financial Statements for the year ended 30 June 2024

## Accounting Policies

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### 1.31 Research and development expenditure (continued)

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.

### 1.32 Budget information

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

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

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

The approved budget covers the fiscal period from 2023/07/01 to 2024/06/30.

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.

### 1.33 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.

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.

# **Merafong City Local Municipality**

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## **Accounting Policies**

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### **1.34 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

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023
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### 2. Investment property

	2024			2023		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	201 145 265	-	201 145 265	268 264 611	-	268 264 611

#### Reconciliation of investment property - 2024

	Opening balance	Disposals	Total
Investment property	268 264 611	(67 119 346)	201 145 265

#### Reconciliation of investment property - 2023

	Opening balance	Disposals	Total
Investment property	268 264 611	-	268 264 611

#### 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.

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.

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## Notes to the Annual Financial Statements

### 3. Property, plant and equipment

	2024			2023		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	142 722 722	-	142 722 722	142 722 722	-	142 722 722
Buildings	176 148 042	(105 940 276)	70 207 766	176 148 043	(100 456 845)	75 691 198
Plant and machinery	6 297 679	(3 789 695)	2 507 984	5 114 829	(3 394 968)	1 719 861
Furniture and office equipment	52 183 299	(36 975 408)	15 207 891	50 527 588	(33 163 689)	17 363 899
Transport assets	28 290 462	(10 010 101)	18 280 361	27 772 647	(5 523 009)	22 249 638
Computer equipment	17 911 433	(9 869 414)	8 042 019	14 025 758	(8 955 437)	5 070 321
Infrastructure	5 435 349 480	(2 627 760 887)	2 807 588 593	5 305 296 608	(2 559 862 699)	2 745 433 909
Community	471 163 169	(309 099 396)	162 063 773	456 809 062	(275 471 973)	181 337 089
<b>Total</b>	<b>6 330 066 286</b>	<b>(3 103 445 177)</b>	<b>3 226 621 109</b>	<b>6 178 417 257</b>	<b>(2 986 828 620)</b>	<b>3 191 588 637</b>



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## Notes to the Annual Financial Statements

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

#### Reconciliation of property, plant and equipment - 2024

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Impairment reversal	Total
Land	142 722 722	-	-	-	-	-	-	142 722 722
Buildings	75 691 198	-	-	-	(5 058 809)	(424 622)	-	70 207 767
Plant and machinery	1 719 861	260 682	(37 665)	1 155 952	(537 290)	(53 557)	-	2 507 983
Furniture and office equipment	17 363 899	997 536	(17 255)	2 015 413	(4 876 170)	(275 532)	-	15 207 891
Transport assets	22 249 638	-	-	530 372	(4 435 100)	(64 548)	-	18 280 362
Computer Equipment	5 070 321	4 671 220	(12 958)	273 694	(1 864 790)	(95 468)	-	8 042 019
Infrastructure	2 745 433 909	130 967 780	(321 194)	-	(120 846 808)	(26 699 675)	79 054 582	2 807 588 594
Community	181 337 089	14 354 108	-	-	(10 565 259)	(23 062 165)	-	162 063 773
	<b>3 191 588 637</b>	<b>151 251 326</b>	<b>(389 072)</b>	<b>3 975 431</b>	<b>(148 184 226)</b>	<b>(50 675 567)</b>	<b>79 054 582</b>	<b>3 226 621 111</b>

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## Notes to the Annual Financial Statements

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

#### Reconciliation of property, plant and equipment - 2023

	Opening balance	Additions	Disposals	Transfers	Provision for landfil Adjustments	Depreciation	Total
Land	142 722 722	-	-	-	-	-	142 722 722
Buildings	80 750 007	-	-	-	-	(5 058 809)	75 691 198
Plant and machinery	2 124 308	76 504	(730)	6 871	-	(487 092)	1 719 861
Furniture and office equipment	16 645 587	7 555 354	(1 422 480)	70 000	-	(5 484 562)	17 363 899
Transport Assets	8 295 181	14 560 696	-	2 251 700	-	(2 857 939)	22 249 638
Computer Equipment	5 318 806	1 299 495	(17 034)	92 214	-	(1 623 160)	5 070 321
Infrastructure	2 716 852 927	146 188 672	(1 640 449)	-	(251 281)	(115 715 960)	2 745 433 909
Community	170 470 343	20 836 334	-	-	-	(9 969 588)	181 337 089
	<b>3 143 179 881</b>	<b>190 517 055</b>	<b>(3 080 693)</b>	<b>2 420 785</b>	<b>(251 281)</b>	<b>(141 197 110)</b>	<b>3 191 588 637</b>

#### Cost of Estimates for omitted Assets

#### Reconciliation of Work-in-Progress 2024

	Infrastructure	Community	Total
Opening balance	239 369 707	22 482 865	261 852 572
Additions/capital expenditure	124 741 422	14 354 106	139 095 528
Transferred to completed items	(118 267 233)	(22 875 760)	(141 142 993)
	<b>245 843 896</b>	<b>13 961 211</b>	<b>259 805 107</b>

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023 Restated*
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### 3. Property, plant and equipment (continued)

#### Reconciliation of Work-in-Progress 2023

	Infrastructure	Community	Total
Opening balance	299 618 503	35 564 969	335 183 472
Additions/capital expenditure	142 654 729	20 836 335	163 491 064
Transferred to completed items	(202 903 525)	(33 918 439)	(236 821 964)
	<b>239 369 707</b>	<b>22 482 865</b>	<b>261 852 572</b>

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

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

Community services	1 895 994	551 306
Infrastructure	696 816	3 461 583
Operational Building	28 169	2 303 140
Plant and machinery	29 517	238 744
Transport assets	6 803 539	-
	<b>9 454 035</b>	<b>6 554 773</b>

#### Long outstanding Work in progress

Project name	2024	2023
WIP 648 : Khutsong South Bulk Station	5 399 687	5 399 687
WIP 805 : Greenpark Outfall Sewer	18 799 137	18 799 137
WIP 930 : Khutsong South Ext 5& 6 Internal roads and Stormwater	30 434 783	12 672 221
WIP 964 : (60MVA 132/6kva) Fochville Bulk Electrical Supply (Phase 5)	10 672 300	10 672 300
	<b>65 305 907</b>	<b>47 543 345</b>

WIP 758: Projects has been stalled and will commence once additional funds have been made available.

WIP 758: Projects has been stalled and will commence once additional funds have been made available.

WIP 805: Project progress is at 89% and has been integrated along with with the Fochville outfall sewer, construction to commence in the 24/25 financial year.

WIP 848: Project Stopped due to insufficient funding in June 2021. Contract termination 16 May 2024

WIP 663: Ongoing disruptions and stoppages encountered. Site closed on 11 Aug 2021

WIP 934: The project has initially stopped due to a lack of funding, but has resumed again as funds have been made available for the project to continue.

P768: The project has initially stopped due to a lack of funding, but has resumed again as funds have been made available for the project to continue

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
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### 3. Property, plant and equipment (continued)

#### Projects which are taking significantly longer periods to complete

#### Carrying value where construction or development has been halted

WP 758 : Sludge drying beds Kokosi and Khutsong	17 141 017	17 141 017
WP 848 : Refurbishment Of Wedela Wwtw	10 861 148	10 861 148
WP 663 : Kokosi Roads and Stormwater (Phase 4)	8 555 171	8 555 171
WP 934 : Kokosi Ext 6/7 Completion of Reservoir	3 478 261	3 478 261
P768 : Kokosi Ext 6 Sewer & Water Meters	887 080	-
WIP 528 : Roads constructions Khutsong	-	-
WIP 515 : Wonderspruit outfall sewer	-	-
WIP 516 : Welverdiend WWTW	-	-
WIP 519 : Pedestrian bridge over rail	-	-
WIP 520 : Internal Roads & Associated	-	-
WIP 521 : Other supporting stormwater	-	-
WIP 522 : Internal Roads & Associated	-	-
WIP 523 : Bulk Water & Sewer Infrastructure	-	-
WIP 524 : Internal Water & Sewer reticulation	-	-
WIP 527 : Design for upgrade Welverdiend WWTW	-	-
WIP 530 : Planning for link bulk stormwater	-	-
WIP 535 : Internal Roads detailed design	-	-
WIP 550 : Bulk Stormwater Western CA	-	-
WIP 688 : Upgrade Khutsong Extensions	-	-
WIP 405 : Informal Trading area Carlet	-	-
WIP 405 : Safety gates (Municipal Park)	-	-
	<b>40 922 677</b>	<b>40 035 597</b>

#### Reasons

WIP 758: Projects has been stalled and will commence once additional funds have been made available.

WIP 848: Project Stopped due to insufficient funding in June 2021. Contract termination 16 May 2024

WIP 663: Ongoing disruptions and stoppages encountered. Site closed on 11 Aug 2021.

WIP 934: The project has initially stopped due to a lack of funding, but has resumed again as funds have been made available for the project to continue.

P768: The project has initially stopped due to a lack of funding, but has resumed again as funds have been made available for the project to continue

#### Cost Estimate for omitted Assets

Supporting documentation in the form of invoices to support the cost of assets previously omitted (omissions) was not available, as such, a deemed cost approach was used to determine the cost and carrying value of these assets. These assets were identified through a physical verification exercise performed by the municipality with the assistance of asset management experts- Infratec Advisory (Pty) Ltd. The Municipality used the Depreciated Replacement Cost (DRC) methodology to determine the deemed cost of the omissions.

The Valuation of omitted assets was carried out by asset management expert - Infratec Advisory (Pty) Ltd.

\* See Note 53 & 52

# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

### 4. Intangible assets

	2024			2023		
	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated amortisation and accumulated impairment	Carrying value
Computer software, other	24 051 799	(5 458 557)	18 593 242	4 214 567	(3 087 548)	1 127 019

#### Reconciliation of intangible assets - 2024

	Opening balance	Additions	Amortisation	Total
Computer software, other	1 127 019	19 837 233	(2 371 010)	18 593 242

#### Reconciliation of intangible assets - 2023

	Opening balance	Amortisation	Total
Computer software, other	1 691 301	(564 282)	1 127 019

### 5. Heritage assets

	2024			2023		
	Cost / Valuation	Accumulated impairment losses	Carrying value	Cost / Valuation	Accumulated impairment losses	Carrying value
Art Collections, antiquities and exhibits	190 360	-	190 360	190 360	-	190 360

#### Reconciliation of heritage assets 2024

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## Notes to the Annual Financial Statements

### 5. Heritage assets (continued)

	Opening balance	Total
Art Collections, antiquities and exhibits	190 360	190 360

### Reconciliation of heritage assets 2023

	Opening balance	Total
Art Collections, antiquities and exhibits	190 360	190 360

### 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.

### 6. Payables from exchange transactions

Trade payables	1 410 467 882	1 510 235 520
Retentions	31 784 397	35 089 986
Debtors with credit balances	85 512 032	56 239 004
Other creditors	17 004 288	212 486
Unallocated deposits	27 086 403	5 626 281
	<b>1 571 855 002</b>	<b>1 607 403 277</b>

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>7. Employee benefit obligations</b>		
<b>Defined benefit plan</b>		
<b>Employee Benefit Liabilities</b>		
<b>Defined benefit plan</b>		
Post-retirement Health Care Benefits	5 436 000	4 297 000
Long Service Awards Liability	2 906 000	4 582 000
<b>Current Portion of Employee Benefit Liabilities</b>	<b>8 342 000</b>	<b>8 879 000</b>
<b>Non-Current Portion of Employee Benefit Liabilities</b>		
Post-retirement Health Care Benefits	123 603 000	112 520 000
Long Service Awards Liability	20 355 000	19 328 000
<b>Non-Current Portion of Employee Benefit Liabilities</b>	<b>143 958 000</b>	<b>131 848 000</b>
<b>Post retirement medical aid plan</b>		
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 actuarial valuation has been performed of the net defined benefit liability in respect of the post employment medical aid subsidy to employees and retirees of Merafong City Local Municipality and their registered dependants. As there is no plan asset, the net defined benefit liability is equal to the defined benefit obligation. The valuation was performed by Mr Chanan Weiss on 05 August 2024 by Mr Chanan Weiss, Fellow of the Actuarial Society of South Africa. The projected unit credit method has been used i.e defined benefit obligation in respect of eligible employees is accrued over their expected working lifetimes. The average expected remaining working-lifetime of employees is 13.7 years		
<b>Post-retirement Health Care Benefits Liability</b>		
Opening balance	116 817 000	114 199 000
Interest costs	14 284 000	13 291 000
Current service cost	4 170 000	4 547 000
Actual Employer Benefits payments	(4 401 637)	(4 067 749)
Actuarial loss (Gain) recognised in the year	(1 830 363)	(11 152 251)
	<b>129 039 000</b>	<b>116 817 000</b>
Current portion of liability (due in the next 12 months)	5 436 000	4 297 000
Non-current portion of liability	123 603 000	112 520 000
<b>Total Post-retirement Health Care Benefits Liability</b>	<b>129 039 000</b>	<b>116 817 000</b>
<b>The members of the Post-employment Health Care Benefit plan are made up as follows:</b>		
In-service members (employees)	592	578

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>7. Employee benefit obligations (continued)</b>		
In-service non-members (employees)	130	158
Continuation members (retirees, widowers and orphans)	90	88
<b>Total members</b>	<b>812</b>	<b>824</b>
<b>The liability in respect of past service has been estimated as follows:</b>		
In-service members (employees)	79 187 000	70 207 000
In-service non-members (employees)	3 257 000	3 379 000
Continuation members (retirees, widowers and orphans)	46 595 000	43 231 000
<b>Total Liability</b>	<b>129 039 000</b>	<b>116 817 000</b>
<b>Post-retirement</b>		

\* See Note 53 & 52



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## Notes to the Annual Financial Statements

2024	2023 Restated*
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### 7. Employee benefit obligations (continued)

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 2024 is estimated to be R 4 170 000 (2023: R4 547 000).

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

Discount rate	12.21%	12.45%
CPI Inflation rate	6.20%	6.56%
Net Discount Rate (Medical aid contribution)	4.19%	8.06%
Medical aid contribution inflation rate	7.70%	4.06%
Maximum subsidy inflation rate	5.40%	5.67%
Net		
Expected Retirement Age- Females	62 yrs	62 yrs
Expected Retirement Age - Males	62 yrs	62 yrs

#### 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 12.21% per annum has been used. The corresponding index-linked yield at this term is 5.19%. 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 28 June 2024.

#### Long Service Awards Liability

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 no plan assets, the net defined benefit liability is equal to the defined benefit obligation were carried out at 05 August 2024 by Mr C Weiss, Fellow of the Actuarial Society of South Africa.

At year-end, 722 (2023: 736) employees were eligible for Long-service Awards.

The Current-service Cost for the year ending 30 June 2024 is estimated to be R1 560 000, whereas the cost for the ensuing year is estimated to be R1 539 000 (30 June 2023: R1 650 000 and R1 560 000 respectively).

\* See Note 53 & 52

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>7. Employee benefit obligations (continued)</b>		
Opening balance	23 910 000	23 707 000
Current service cost	1 560 000	1 650 000
Interest cost	2 368 000	2 397 000
Benefit vesting	(3 927 285)	(3 036 408)
Actuarial (gain)/ loss	(649 715)	(807 592)
	<b>23 261 000</b>	<b>23 910 000</b>
Current portion of liability	2 906 000	4 582 000
Non-current portion of liability	20 355 000	19 328 000
<b>Total Long Service Awards Liability</b>	<b>23 261 000</b>	<b>23 910 000</b>

### Long Service Awards

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

Discount rate	10.75%	10.92%
CPI Inflation rate	4.94%	5.39%
General earnings Inflation rate	5.94%	6.39%
Net discount rate	4.54%	4.26%
Expected Retirement Age- Females	62 yrs	62 yrs
Expected Retirement Age - Males	62 yrs	62 yrs

### 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 10.75% per annum has been used. The corresponding liability-weighted index-linked yield is 5.06%. 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 28 June 2024. The duration of the total liability was estimated to be 7,25 years.

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

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>8. Inventories</b>		
Water for distribution	674 523	957 802
<b>Inventory pledged as security</b>		
No portion of inventory has been pledged as a security.		
<b>Water for distribution</b>		
Opening balance	957 804	706 074
System input volume	353 328 056	311 906 748
Authorised consumption	(202 906 759)	(204 243 988)
Unavoidable annual real losses	(150 421 298)	(107 662 760)
Adjustment	(283 280)	251 728
<b>Closing balance</b>	<b>674 523</b>	<b>957 802</b>
<b>9. Statutory receivables</b>		
The municipality had the following statutory receivables where the Framework for the Preparation and Presentation of Financial Statements have been applied, for the initial recognition:		
Traffic fines	8 266 226	9 051 506
Property rates	47 809 000	29 919 946
VAT Receivables	96 100 987	120 147 136
	<b>152 176 213</b>	<b>159 118 588</b>

\* See Note 53 & 52

# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>10. Consumer debtors from non-exchange transactions</b>		
<b>Gross balances</b>		
Property rates	2 707 810 627	1 998 796 487
Penalties	176 549	176 549
	<b>2 707 987 176</b>	<b>1 998 973 036</b>
<b>Less: Allowance for Impairment</b>		
Property rates	(2 660 001 627)	(1 968 878 199)
Penalties	(174 891)	(174 891)
	<b>(2 660 176 518)</b>	<b>(1 969 053 090)</b>
<b>Net balances</b>		
Property rates	47 809 000	29 918 288
Penalties	1 658	1 658
	<b>47 810 658</b>	<b>29 919 946</b>
<b>Property rates</b>		
Current (0 - 30 days)	57 130 861	(48 741 909)
31 - 60 days	70 721 008	50 222 753
61 - 90 days	46 435 164	45 101 291
91 - 120 days	44 780 848	43 685 013
>120 days	2 488 742 746	1 908 259 339
	<b>2 707 810 627</b>	<b>1 998 526 487</b>
<b>Penalties</b>		
Current (0 - 30 days)	-	930
31 - 60 days	-	1 086
61 - 90 days	-	836
91 - 120 days	-	1 505
> 120 days	176 549	172 192
	<b>176 549</b>	<b>176 549</b>
<b>Reconciliation of allowance for impairment</b>		
Opening balance	1 969 053 090	1 604 594 172
Allowance for the year	691 123 428	364 458 918
	<b>2 660 176 518</b>	<b>1 969 053 090</b>
<b>11. Receivables from exchange transaction</b>		
Service Debtors Control Acc:Property Rental Debtor	6 236 240	3 907 540
Prepayments and Advances:Recoveries from Staff	4 368 874	5 211 840
Accrued interest	65 161	74 261
	<b>10 670 275</b>	<b>9 193 641</b>
<b>Gross Debtors</b>	40 621 337	38 342 781
Services Debtors Control Acc:Property Rental Debtors:Impairment Recognised	(29 951 062)	(29 149 140)
	<b>10 670 275</b>	<b>9 193 641</b>

\* See Note 53 & 52

# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>11. Receivables from exchange transaction (continued)</b>		
Financial asset receivables included in receivables from exchange transactions above	-	-
<b>Total receivables from exchange transactions</b>	<b>10 670 275</b>	<b>9 193 641</b>
<b>Trade and other receivables impaired</b>		
The ageing of trade and other receivables is as follows:		
0 to 30 days	95 786	6 263 489
31 to 60 days	95 521	3 379 261
61 to 90 days	27 067	51 899
91 to 120 days	27 067	50 738
Over 120 days	40 375 897	28 597 395
<b>Reconciliation of provision for impairment of trade and other receivables</b>		
Opening balance	29 149 140	30 820 576
Provision for impairment	801 922	(1 671 436)
	<b>29 951 062</b>	<b>29 149 140</b>
<b>12. Receivables from non-exchange transactions</b>		
Traffic fines	123 268 542	90 137 442
Less: Impairment	(115 002 316)	(81 085 936)
	<b>8 266 226</b>	<b>9 051 506</b>
<b>Reconciliation for impairment</b>		
Opening balance	81 085 936	78 681 284
Impairment	33 916 380	2 404 652
	<b>115 002 316</b>	<b>81 085 936</b>
<b>Financial asset receivables included in receivables from non-exchange transactions above</b>	<b>(106 736 090)</b>	<b>14 579 884</b>
<b>Total receivables from non-exchange transactions</b>	<b>8 266 226</b>	<b>14 579 884</b>
<b>Receivables from non-exchange transactions pledged as security</b>		
No receivables from non-exchange transactions were pledged as security.		
<b>13. VAT receivable</b>		
VAT	96 100 987	120 147 136
The Vat Receivable (Payable) is attributable to:		
a) Vat receivable - Cash Portion	9 046 356	27 092 141
The Vat Receivable - Cash Portion is attributable to VAT Returns submitted to SARS awaiting payment by SARS.		
b) Vat Receivable - Accrual Portion	87 054 631	93 054 995

\* See Note 53 & 52

# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
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### 14. Cash and cash equivalents

Cash and cash equivalents consist of:

Cash on hand	15 782	15 782
Bank balances	52 899 892	6 243 246
Short-term deposits	119 041 734	154 941 406
	<b>171 957 408</b>	<b>161 200 434</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2024	30 June 2023	30 June 2022	30 June 2024	30 June 2023	30 June 2022
NEDBANK Ltd- Current Account: 1454 087 331	50 059 220	2 377 844	17 235 277	50 059 220	2 377 844	3 164 987
FIRST NATIONAL BANK- Current account: 62 796 852 624	2 590 672	3 615 402	3 083 670	2 590 672	3 615 402	(1 274 020)
FNB Fleet Deposit: 62 796 855 446	250 000	250 000	250 000	250 000	250 000	250 000
NEDBANK SPECIAL DEPOSIT: 3749 2501 323	717 572	1 432 582	13 133 484	717 572	1 432 582	13 133 484
FIRST NATIONAL BANK- Call account: 62 797 400 737	116 674 161	153 508 823	108 474 817	116 674 161	153 508 823	108 474 817
Cash on hand	15 783	15 783	15 783	15 783	15 783	15 783
Nedbank Investment account	1 650 000	-	-	1 650 000	-	-
<b>Total</b>	<b>171 957 408</b>	<b>161 200 434</b>	<b>142 193 031</b>	<b>171 957 409</b>	<b>161 200 434</b>	<b>123 765 051</b>

### Restricted cash balances

Trust account	80 483 185	65 143 888
The municipality is currently having a dispute with the mines over the General Valuation Roll of 2019. The Mines have set aside funds payable to the municipality into a Trust Account administered by the Municipal Lawyers. Should the judgement or ruling be in favour of the municipality, the municipality will be entitled to receive the excess of the amount in the Trust Account.		

### 15. Consumer debtors

#### Gross balances

Electricity	362 314 404	226 920 949
Water	2 069 496 437	1 740 012 010
Sewerage	368 249 570	376 718 737
Refuse	455 779 295	484 247 442
Other service debtors	63 371 642	14 601 354
	<b>3 319 211 348</b>	<b>2 842 500 492</b>

\* See Note 53 & 52

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>15. Consumer debtors (continued)</b>		
<b>Less: Allowance for impairment</b>		
Electricity	(256 230 700)	(195 786 212)
Water	(1 973 131 646)	(1 590 943 153)
Sewerage	(354 789 499)	(354 943 218)
Refuse	(442 932 033)	(444 009 011)
Other service debtors	(57 919 103)	(9 257 537)
	<b>(3 085 002 981)</b>	<b>(2 594 939 131)</b>
<b>Net balance</b>		
Electricity	106 083 704	31 134 737
Water	96 364 791	149 068 857
Sewerage	13 460 071	21 775 519
Refuse	12 847 262	40 238 431
Other service debtors	5 452 540	5 343 817
	<b>234 208 368</b>	<b>247 561 361</b>
<b>Water</b>		
Current (0 -30 days)	53 394 273	145 050 548
31 - 60 days	54 283 276	22 967 882
61 - 90 days	45 047 675	19 809 153
91 - 120 days	25 608 638	18 458 986
121 - 365 days	1 891 162 575	1 533 725 441
	<b>2 069 496 437</b>	<b>1 740 012 010</b>
<b>Sewerage</b>		
Current (0 -30 days)	10 471 649	12 553 761
31 - 60 days	10 609 946	8 275 378
61 - 90 days	4 875 124	6 627 683
91 - 120 days	4 624 196	6 217 799
121 - 365 days	337 668 655	343 044 116
	<b>368 249 570</b>	<b>376 718 737</b>
<b>Electricity</b>		
Current (0 -30 days)	42 352 914	18 200 921
31 - 60 days	34 200 764	121 232 161
61 - 90 days	23 131 609	4 957 089
91 - 120 days	26 674 243	4 032 752
121 - 365 days	235 954 875	187 498 026
	<b>362 314 405</b>	<b>335 920 949</b>
<b>Refuse</b>		
Current (0 -30 days)	11 051 588	13 734 519
31 - 60 days	10 054 140	11 068 809
61 - 90 days	6 301 977	8 769 434
91 - 120 days	5 802 532	8 064 988
121 - 365 days	422 569 058	442 609 692
	<b>455 779 295</b>	<b>484 247 442</b>

\* See Note 53 & 52

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>15. Consumer debtors (continued)</b>		
<b>Other service debtors</b>		
Current (0 -30 days)	2 715 665	1 475 080
31 - 60 days	3 654 232	946 958
61 - 90 days	244 447	634 846
91 - 120 days	400 459	531 544
121 - 365 days	56 356 838	11 012 927
	<b>63 371 641</b>	<b>14 601 355</b>
<b>Reconciliation of allowance for impairment</b>		
Balance at beginning of the year	2 594 939 131	2 270 563 213
Contributions to allowance	490 063 850	324 375 918
	<b>3 085 002 981</b>	<b>2 594 939 131</b>
<b>16. Borrowings</b>		
<b>At amortised cost</b>		
Current portion of borrowings	10 348 750	9 420 092
Non-current portion of long-term loans	7 323 900	17 674 054
<b>Total other financial liabilities</b>	<b>17 672 650</b>	<b>27 094 146</b>
<b>Current portion of Borrowings</b>		
Nedbank	7 663 468	6 866 475
Development Bank of South Africa	2 685 305	2 553 616
	<b>10 348 773</b>	<b>9 420 091</b>
<b>Non-current portion of Borrowings</b>		
Nedbank	800	7 665 649
Development Bank of South Africa	7 323 099	10 008 404
	<b>7 323 899</b>	<b>17 674 053</b>

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.

	Interest Rate	Start date	Redemption Date
<b>External Loans</b>			
Development Bank of South Africa	5.00%	01/10/2007	30/09/2027
Nedbank	11.22%	25/06/2015	25/06/2025
<b>Non-current liabilities</b>			
At amortised cost		7 323 900	17 674 054

\* See Note 53 & 52



# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

	2024	2023 Restated*	
<b>16. Borrowings (continued)</b>			
<b>Current liabilities</b>			
At amortised cost	10 348 750	9 420 092	
<b>Financial liabilities at fair value</b>			
<b>Reconciliation of borrowings</b>			
<b>Reconciliation of borrowings-2024</b>			
	Opening balance	Settlements	Closing balance
DBSA	12 562 020	(2 553 616)	10 008 404
Nedbank	14 532 124	(6 867 856)	7 664 268
	<b>27 094 144</b>	<b>(9 421 472)</b>	<b>17 672 672</b>
<b>Reconciliation of borrowings - 2023</b>			
	Opening balance	Settlements	Closing balance
DBSA	14 994 880	(2 432 860)	12 562 020
Nedbank	20 635 071	(6 102 947)	14 532 124
	<b>35 629 951</b>	<b>(8 535 807)</b>	<b>27 094 144</b>
<b>17. Finance lease obligation</b>			
<b>Minimum lease payments due</b>			
- within one year	2 423 787	2 786 395	
- in second to fifth year inclusive	638 631	3 034 269	
<b>Present value of minimum lease payments</b>	<b>3 062 418</b>	<b>5 820 664</b>	
<b>Present value of minimum lease payments due</b>			
- within one year	2 423 787	2 786 396	
- in second to fifth year inclusive	638 631	3 034 269	
	<b>3 062 418</b>	<b>5 820 665</b>	
Non-current liabilities	638 631	3 034 269	
Current liabilities	2 423 787	2 786 396	
	<b>3 062 418</b>	<b>5 820 665</b>	

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

### Defaults and breaches

During the current year, there were no defaults or breaches of any finance leases agreements.

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
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### 18. Unspent conditional grants and receipts

Unspent grants are mainly attributed to projects that are work in progress in the relevant financial year-end. The unspent grants are cash-backed by term deposits. The municipality complied with the conditions attached to all grants received to the extent of revenue recognised.

#### Unspent conditional grants and receipts comprises of:

##### Unspent conditional grants and receipts

Mining Town	32 242 884	30 547 480
WSIG	34 594 387	12 718 425
FMG	-	814 989
Municipal disaster recovery	16 638	-
Library Recapitalization Grant	9 944 650	3 812 951
	<b>76 798 559</b>	<b>47 893 845</b>

See note 29 for reconciliation of grants from National/Provincial Government. These amounts are invested in a ring-fenced investment until utilised.

\* See Note 53 & 52

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2024  
2023  
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### 19. Provisions

#### Reconciliation of provisions - 2024

	Opening Balance	Additions	Change in discount factor	Total
Rehabilitation of the Landfill site	7 471 311	(429 726)	725 284	7 766 869
Performance Bonus	6 772 948	1 049 496	-	7 822 444
Leave	25 843 215	4 740 365	-	30 583 580
	<b>40 087 474</b>	<b>5 360 135</b>	<b>725 284</b>	<b>46 172 893</b>

#### Reconciliation of provisions - 2023

	Opening Balance	Additions	Change in discount factor	Total
Rehabilitation of Landfill sites	10 612 160	(3 839 594)	698 745	7 471 311
Performance bonus	6 367 264	405 684	-	6 772 948
Leave	26 841 220	(998 005)	-	25 843 215
	<b>43 820 644</b>	<b>(4 431 915)</b>	<b>698 745</b>	<b>40 087 474</b>

Non-current liabilities	1 424 909	1 331 567
Current liabilities	44 747 984	38 755 907
	<b>46 172 893</b>	<b>40 087 474</b>

#### Environmental rehabilitation provision

Long-term obligations comprising pollution control, rehabilitation and site closure result from environmental disturbances associated with the municipality's operations. Estimates are determined by independent environmental specialists in accordance with environmental regulations.

Restoration costs:

Changes in the discounted amount of estimated restoration costs are charged to profit or loss during the period in which such changes occur. Estimated restoration costs are reviewed annually and discounted using a pre-tax risk-free rate that reflects market assessments of the value of money. The increase in restoration provisions owing to the passage of time is charged to finance costs. All other charges in the carrying amount of the provision subsequent to initial recognition are included in profit or loss in the period in which they are incurred.

Ongoing rehabilitation cost:

The cost of ongoing current programmes to prevent and control pollution is recognised as an expense when incurred.

Critical accounting estimates and assumptions:

The municipality's activities are subject to various laws and regulations governing the protection of the environment. The municipality recognises management's best estimate for asset retirement obligations in the period in which they are incurred.

Actual costs incurred and actual timing thereof in future periods can differ materially from the estimates. Additionally, future changes to environmental laws and regulations, life of site estimates and discount rates can affect the carrying amount of this provision.

\* See Note 53 & 52

# Merafong City Local Municipality

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	2024	2023 Restated*
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### 19. Provisions (continued)

Estimated long-term environmental provisions, comprising pollution control, rehabilitation and landfill site closure, are based on the municipality's environmental policy taking into account current technological, environmental and regulatory requirements. Provisions for future rehabilitation costs have been determined, based on calculations which require the use of estimates.

### 20. Municipal Debt Relief Liability

	2024	2023
<b>Future payments</b>		
Within one year	209 059 488	-
Within 2 and 5 years	418 118 978	-
Less Interest	(110 538 146)	-
	<b>516 640 320</b>	<b>-</b>
	2024	2023
Current liability	150 130 738	-
Non- Current liability	366 509 582	-
	<b>516 640 320</b>	<b>-</b>

Government introduced a debt relief package that writes off historic municipal debt to Eskom to help free up revenue at municipalities to provide reliable basic services. Merafong's application for the Municipal debt relief was approved in December 2023. To qualify for the write off the municipality is expected to meet 14 conditions as guided by MFMA Circular 124. The Municipal Debt will be written off by Eskom over a three-year period – one third of the Municipal Relief Debt for every 12 consecutive months the municipality complies with the conditions. The write-off by Eskom is contingent upon the municipality continuously meeting the conditions specified in the Circular, as well as an annual written communication from the National Treasury confirming compliance with the conditions with the conditions. Amount owing to Eskom owing as of 31 March 2023, including interest and penalties accrued thereon was de-recognised, and a new financial liability, Municipal Relief Debt recognised by the municipality. Over the 3-year period of the Eskom Debt relief programme, Eskom waives further interest and penalties pertaining to the approved amount. The Municipal Relief Debt is recognised at fair value amortised over 3 years. The qualifying portion is discounted at the market rate which is the prevailing prime interest rate plus 2.5 percent. The current liability relates to the expected write off(excluding interest) within the 12 month and non-current liability is the expected write off in 2<sup>nd</sup> year and 3<sup>rd</sup> year.

### 21. Revenue

Service charges	887 310 790	841 370 222
Rental of facilities and equipment	2 903 509	1 421 167
Interest received (trading)	310 770 865	174 270 063
Agency services	10 991 348	12 831 481
Actuarial Gains	2 480 078	17 298 426
Other income	2 094 796	4 245 066
Gain on landfill site	429 725	-
Interest received - investment	19 709 292	12 817 711
Property rates	765 344 212	581 883 095
Government grants & subsidies	470 969 707	481 549 030
Public contributions and donations	13 534 071	2 251 700
Fines, Penalties and Forfeits	34 364 545	24 190 761
Municipal Debt Relief	213 206 718	-
Reversal of impairment loss	79 054 581	-
	<b>2 813 164 237</b>	<b>2 154 128 722</b>

\* See Note 53 & 52

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	2024	2023 Restated*
<b>21. Revenue (continued)</b>		
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	887 310 790	841 370 222
Rental of facilities and equipment	2 903 509	1 421 167
Interest received (trading)	310 770 865	174 270 063
Agency services	10 991 348	12 831 481
Operational revenue	2 094 796	4 245 066
Actuarial gains	2 480 078	17 298 426
Interest received - investment	19 709 292	12 817 711
	<b>1 236 260 678</b>	<b>1 064 254 136</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	765 344 212	581 883 095
<b>Transfer revenue</b>		
Government grants & subsidies	470 969 707	481 549 030
Public contributions and donations	13 534 071	2 251 700
Fines, Penalties and Forfeits	34 364 545	24 190 761
Municipal Debt Relief	213 206 718	-
Gains - Landfill site	79 054 581	-
	<b>1 576 473 834</b>	<b>1 089 874 586</b>
<b>22. Service charges</b>		
Sale of electricity	364 310 796	276 929 989
Sale of water	373 073 846	406 043 335
Sewerage and sanitation charges	69 135 025	75 863 815
Refuse removal	80 791 123	82 533 083
	<b>887 310 790</b>	<b>841 370 222</b>
<b>23. Rental of facilities and equipment</b>		
<b>Facilities and equipment</b>		
Rental of facilities	2 903 509	943 774
Municipal housing	-	477 393
	<b>2 903 509</b>	<b>1 421 167</b>
<b>24. Interest income earned</b>		
Interest income earned	310 770 865	174 270 063
<b>25. Agency services</b>		
Agency fees	10 991 348	12 831 481

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.

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>26. Operational revenue</b>		
Town planning and Servitudes	97 637	1 344 043
Building plan fees	732 512	644 794
Cemetery fees	347 440	346 432
Valuation fees	-	287 500
Admin fees	-	341 305
Photocopies and faxes	3 463	164 607
Refunds	-	329 508
Clearance certificates	131 485	143 636
Entrance fees	104 921	120 933
Encroachment fees	40 000	71 221
Development charges	-	85 491
Agricultural product's sales	-	157 078
Other income	637 338	208 518
	<b>2 094 796</b>	<b>4 245 066</b>
<b>27. Interest earned - external investments</b>		
<b>Interest revenue</b>		
Short-term investments and call accounts	19 709 292	12 817 711
<b>28. Property rates</b>		
<b>Rates received</b>		
Residential	450 785 367	65 651 023
Business and Commercial	48 418 627	91 408 198
Public Service Infrastructure	-	916 606
Municipal	8 913 787	-
Small holdings and farms	2 501 058	5 020 905
Mining Properties	254 725 373	423 536 641
Less: Income forgone	-	(4 650 278)
	<b>765 344 212</b>	<b>581 883 095</b>
<b>Valuations R'000</b>		
Residential	7 101 059	6 914 392
Business and Commercial	1 889 630	1 824 848
Public Service Infrastructure	33 800	32 982
Municipal	121 825	108 524
Agricultural and Industrial	1 206 533	1 324 125
Mining	7 566 222	7 602 552
Vacant land	346 281	358 615
Public Service Purposes	487 479	486 703
Place of Worship	187 726	177 696
Multi Purpose and Protected Area	5 780	5 790
	<b>18 946 335</b>	<b>18 836 227</b>

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.

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>29. Government grants &amp; subsidies</b>		
<b>Operating grants</b>		
Equitable share	285 049 989	283 471 903
SETA Training	801 711	-
Library Recapitalization Grant	15 314 301	2 708 217
EPWP	1 484 000	1 568 309
Financial Management Grant	2 850 000	2 031 597
Municipal Disaster Recovery Grant	4 983 363	-
District Grants	2 932 709	-
Mayor's Charity Fund	-	668 338
	<b>313 416 073</b>	<b>290 448 364</b>
<b>Capital grants</b>		
Water Services Infrastructure Grant	8 454 038	18 729 251
Municipal Infrastructure Grant	73 795 000	76 463 782
INEP	25 000 000	27 611 229
Mining Town	50 304 596	68 296 404
	<b>157 553 634</b>	<b>191 100 666</b>
	<b>470 969 707</b>	<b>481 549 030</b>
<b>Equitable Share</b>		
In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members. The Equitable share is the unconditional share of the revenue raised nationally and is being allocated in terms of section 214 of the Constitution (Act 108 of 1996) to the municipality by the National Treasury.		
Current year receipts	284 235 000	259 007 000
Conditions met - transferred to revenue	(284 235 000)	(288 766 396)
Adjustment	-	29 759 396
	-	-
<b>INEP</b>		
Balance unspent at beginning of year	-	(3 184 371)
Current-year receipts	25 000 000	25 617 000
Conditions met - transferred to revenue	(25 000 000)	(25 363 790)
Own income used to finance expenditure for the year	-	2 931 161
	-	-
.		
The purpose of this grant is to address electrification backlog of permanently occupied residential dwellings. Grant was received from the department of Mineral Resources and Energy. Conditions of the grant were partially met at year end - (see note )18		
<b>MIG</b>		
Balance unspent at beginning of year	-	9 772 428
Current-year receipts	73 795 000	75 708 000
Conditions met - transferred to revenue	(73 795 000)	(76 463 782)

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>29. Government grants &amp; subsidies (continued)</b>		
Prior year error correction	-	755 782
Roll-over not approved	-	(9 772 428)
	-	-

MIG Grant was used to accelerate the provision of basic service delivery through construction of capital projects. Conditions of the grant were partially met at year end - (see note 18)

### Municipal Disaster Recovery Grant

Balance unspent at beginning of year	-	4 219
Current-year receipts	5 000 000	-
Conditions met - transferred to revenue	(4 983 363)	-
Adjustments	-	(4 219)
	<b>16 637</b>	<b>-</b>

Grant has been received from the Provincial government for any municipal disaster event. Unspent Disaster Recovery amount R 16,637 at year end is transferred to liability.

### WSIG

Balance unspent at beginning of year	12 718 430	3 718 962
Current-year receipts	30 330 000	38 774 585
Conditions met - transferred to revenue	(8 454 038)	(27 611 229)
Other	-	(2 163 888)
	<b>34 594 392</b>	<b>12 718 430</b>

Grant has been received from Water Services department and a total of R34 594 392 remains unspent at the year end.

### Mining Town

Balance unspent at beginning of year	30 547 480	19 344 839
Current-year receipts	52 000 000	77 540 565
Conditions met - transferred to revenue	(50 304 596)	(68 296 404)
Adjustment	-	1 958 480
	<b>32 242 884</b>	<b>30 547 480</b>

A total of R32 242 884 remains unspent at year-end.

### SETA Training

Balance unspent at beginning of year	-	542 818
Current-year receipts	801 711	-
Conditions met - transferred to revenue	(801 711)	-
Adjustment	-	(542 818)
	-	-

### District Grant

Current-year receipts	2 932 709	2 863 680
Conditions met - transferred to revenue	(2 932 709)	(2 708 217)
Adjustment	-	(155 463)

\* See Note 53 & 52



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## Notes to the Annual Financial Statements

	2024	2023 Restated*
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### 29. Government grants & subsidies (continued)

	-	-
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#### EPWP

Balance unspent at beginning of year	-	32 288
Current-year receipts	1 484 000	1 562 000
Conditions met - transferred to revenue	(1 484 000)	(1 568 309)
Adjustments	-	(25 979)
	-	-

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

#### FMG

Balance unspent at beginning of year	814 989	(3 414)
Current-year receipts	2 850 000	2 850 000
Conditions met - transferred to revenue	(2 850 000)	(2 031 597)
Rollover rejection and transferred to Equitable share	(814 989)	-
	-	814 989

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
Adjustment	-	(3 200 508)
	-	-

#### Library Recapitalization Grant

Balance unspent at beginning of year	3 812 951	5 160 625
Current-year receipts	21 446 000	19 357 426
Conditions met - transferred to revenue	(15 314 301)	(19 929 678)
Adjustment	-	(775 422)
	9 944 650	3 812 951

A total of R 9 944 650 remains unspent for the Capacity Building Grant (Library grant).

### 30. Public contributions and donations

Public contributions and donations	13 534 071	2 251 700
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COGTA donated 15 Transformers in the current year to Merafong as part of its Transformer Replacement Program. The value of Transformers donated are R6 226 357.

\* See Note 53 & 52

# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
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### 31. Fines, Penalties and Forfeits

Building Fines	46 040	52 500
Overdue Books Fines	1 289	3 600
Tender Withdrawal Penalties	-	528 757
Traffic Fines	34 317 216	23 461 744
Tampering penalty	-	144 160
	<b>34 364 545</b>	<b>24 190 761</b>

### 32. Municipal Debt Relief

Eskom Debt Relief - Interest Relief	143 848 063	-
Interest reversal	69 358 655	-
	<b>213 206 718</b>	<b>-</b>

Merafong City Local Municipality was approved to participate in the Municipal Eskom Debt Relief effective 1 December 2023. The Municipal Relief Debt will be written off by Eskom over a three-year period – one third of the Municipal Relief Debt for every 12 consecutive months the municipality complies with the conditions. The write-off by Eskom is contingent upon the municipality continuously meeting the conditions specified in the Circular 124, as well as an annual written communication from the National Treasury confirming compliance with the conditions with the conditions.

### 33. Employee related costs

Basic	245 439 862	211 756 163
Bonus	17 020 687	16 200 363
Medical aid - company contributions	29 073 633	32 504 785
UIF	1 733 636	1 671 961
Leave pay provision charge	11 739 636	6 786 030
Defined contribution plans	40 638 383	30 438 582
Travel, motor car, accommodation, subsistence and other allowances	11 913 122	10 095 398
Overtime payments	33 838 250	32 574 468
Acting allowances	13 836 935	13 304 827
Housing benefits and allowances	6 187 671	5 881 966
Insurance	2 311 864	2 183 032
Bargaining Council	128 353	233 732
Long-term benefits - incentive scheme	989 333	6 823 749
	<b>414 851 365</b>	<b>370 455 056</b>

### 34. Remuneration of councillors

Executive Mayor	1 040 254	1 019 568
Mayoral Committee Members	9 738 220	9 127 624
Speaker	977 367	828 686
Councillors	14 575 807	14 484 474
	<b>26 331 648</b>	<b>25 460 352</b>

\* See Note 53 & 52

# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
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### 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	148 184 225	141 197 112
Intangible assets	2 371 010	564 282
	<b>150 555 235</b>	<b>141 761 394</b>

### 36. Impairment loss

#### Impairments

Buildings	424 621	-
Community Assets	23 062 165	-
Infrastructure Assets	26 699 675	-
Computer Equipment	95 468	-
Furniture and office equipment	275 532	-
Machinery and Equipment	53 557	-
Transport Assets	64 548	-
	<b>50 675 566</b>	<b>-</b>

During the financial year assets were identified through verification to be in an impaired state, i.e. no longer capable of functioning in the manner as intended by management due to the assets condition, functionality and utilisation. Furthermore, these assets were also assessed to have no service potential and were thus impaired.

#### Reversal of impairments

Infrastructure assets- Electrical	(79 054 582)	-
<b>Total impairment losses (recognised) reversed</b>	<b>(28 379 016)</b>	<b>-</b>

There were assets that were previously impaired due to their condition and functionality that no longer show any impairment indicators as their condition and functionality has improved thus restoring the asset to the location and condition as intended by management.

### 37. Finance costs

Finance cost: Eskom debt relief	33 309 917	-
Interest on provision of Landfill site	725 283	610 898
Trade and other payables	144 377 258	138 205 468
Current borrowings	1 887 252	2 732 042
Interest costs- Defined employee benefit Obligations	17 004 580	15 278 000
	<b>197 304 290</b>	<b>156 826 408</b>

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>38. Debt impairment</b>		
Bad debts written off	60 395 280	118 342 638
Provision for bad Debts- Traffic Fines	33 916 380	2 404 652
Provision for bad debts- Electricity	60 444 488	16 495 714
Provision for bad debts- Other	48 661 566	138 696 226
Provision for bad debts- Refuse	(1 076 978)	35 996 337
Provision for bad debts- Sewerage	(153 719)	29 786 196
Provision for bad debts- Water	382 188 493	103 401 445
Provision for bad debts- Other	801 922	(1 671 436)
Property rates	691 123 428	364 458 918
	<b>1 276 300 860</b>	<b>807 910 690</b>

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

	2024		2023 Restated*	
<b>39. Bulk purchases</b>				
Electricity - Eskom			466 244 315	370 579 936
			-	-
			<b>466 244 315</b>	<b>370 579 936</b>
<b>Electricity losses</b>				
	30 June 2024 - KWH	30 June 2024- Amount	30 June 2023 KWH	30 June 2023 Amount
Units purchased	236 195 773	466 244 315	219 211 705	370 579 936
Units sold	(123 486 720)	(243 716 035)	(101 024 883)	(169 721 803)
<b>Total loss</b>	<b>112 709 053</b>	<b>222 528 280</b>	<b>118 186 822</b>	<b>200 858 133</b>
Comprising of:				
Technical losses	6 762 543	13 351 697	7 091 209	12 051 488
Non-technical losses	105 946 510	209 176 583	111 095 613	188 806 645
<b>Total</b>	<b>112 709 053</b>	<b>222 528 280</b>	<b>118 186 822</b>	<b>200 858 133</b>
Percentage Loss:				
Technical losses	3 %	3 %	3 %	3 %
Non-technical losses	45 %	45 %	51 %	51 %
<b>Total</b>	<b>48 %</b>	<b>48 %</b>	<b>54 %</b>	<b>54 %</b>
<b>Water losses</b>				
	30 June 2024- Kilo Litres	30 June 2024- Amount	30 June 2023- Kilo Litres	30 June 2023 - Amount
Opening balance of water stock	78 637	957 802	66 137	706 074
Units purchased	26 524 830	353 328 056	25 607 434	311 906 748
Units sold	(15 232 493)	(202 906 759)	(16 768 359)	(204 243 988)
Revaluation adjustment on unit price of stock on hand	(72 682)	(283 279)	12 499	251 728
Closing balance of water stock	50 637	(674 522)	(78 637)	(957 802)
<b>Total</b>	<b>11 348 930</b>	<b>150 421 298</b>	<b>8 839 074</b>	<b>107 662 760</b>
Comprising of:				
Technical losses	680 936	9 025 278	530 344	6 459 766
Non-technical losses	10 667 994	141 396 020	8 308 730	101 202 994
<b>Total</b>	<b>11 348 930</b>	<b>150 421 298</b>	<b>8 839 074</b>	<b>107 662 760</b>
Percentage Loss:				
Technical losses	2 %	2 %	2 %	2 %
Non-technical losses	40 %	40 %	32 %	32 %
<b>Total</b>	<b>43 %</b>	<b>43 %</b>	<b>34 %</b>	<b>34 %</b>

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>40. Contracted services</b>		
<b>Presented previously</b>		
Operating Leases	5 065 977	25 192 327
Specialist Services	144 149 535	53 169 265
Other Contractors	106 795 861	38 591 881
<b>41. Loss on disposal of assets</b>		
Infrastructure	321 192	1 640 449
Computer Equipment	12 960	17 034
Furniture and Office equipment	17 254	1 422 480
Machinery and Equipment	37 665	730
Investment Property	67 119 346	-
	<b>67 508 417</b>	<b>3 080 693</b>
During the year under review the municipality realized accounting lossess on various assets reflected above.		
<b>42. Inventory consumed</b>		
Inventory consumed	353 611 336	311 674 426
<b>43. Operational costs</b>		
Advertising	580 272	364 254
Auditors remuneration	11 569 720	9 384 354
Bank charges	1 001 571	3 317 888
Cleaning	932 993	269 543
Consumables	6 674 794	1 161 928
Entertainment	-	11 713
Hiring of equipment	155 071	1 662 573
Insurance	114 829	4 762 939
Conferences and seminars	651 743	84 104
IT expenses	24 829 200	8 922 101
Fuel and oil	14 579 625	20 180 596
Printing and stationery	1 724 548	1 381 510
Software expenses	4 482 077	3 705 183
Telephone and fax	1 724 824	1 928 296
Travel - local	8 338	59 718
Bursaries	287 316	595 107
Skills Development	2 724 487	-
Membership	4 957 554	3 702 568
Ward Committee Remuneration	2 461 176	-
Library expenses	-	837 077
Other expenses	1 996 428	1 861 310
	<b>81 456 566</b>	<b>64 192 762</b>
<b>44. Auditors' remuneration</b>		
Audit fees	11 569 720	9 384 354

\* See Note 53 & 52

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>45. Cash generated from operations</b>		
Deficit	(528 525 724)	(214 766 469)
<b>Adjustments for:</b>		
Depreciation and amortisation	150 555 235	141 761 395
Gain on sale of assets and liabilities	67 508 416	3 080 693
Impairment deficit	50 675 567	-
Debt impairment	1 276 300 860	807 910 690
Movements in retirement benefit assets and liabilities	11 573 000	(2 408 000)
Movements in provisions	6 085 419	(5 011 653)
Finance cost - non cash	52 309 916	18 034 375
Other non-cash items	348 029 215	55 983 242
<b>Changes in working capital:</b>		
Inventories	283 279	(251 728)
Receivables from exchange transaction	(1 476 634)	8 617 961
Consumer debtors	(1 266 807 336)	(874 005 242)
Other receivables from non-exchange transactions	785 280	(309 141)
Payables from exchange transactions	(35 548 275)	311 283 666
VAT	24 046 149	(13 157 271)
Unspent conditional grants and receipts	28 904 714	(57 758)
Consumer deposits	1 396 424	2 546 618
	<b>186 095 505</b>	<b>239 251 378</b>

## 46. Financial instruments

### Categories of financial instruments

#### 2024

##### Financial assets

	At amortised cost	Total
Receivables from exchange transactions	21 676 844	21 676 844
Cash and cash equivalents	171 957 408	171 957 408
Consumer Debtors from exchange transactions	234 208 368	234 208 368
	<b>427 842 620</b>	<b>427 842 620</b>

##### Financial liabilities

	At amortised cost	Total
Consumer deposits	26 787 582	26 787 582
Borrowings	17 672 650	17 672 650
Trade and other payables from exchange transactions	1 571 855 002	1 571 855 002
Municipal debt relief	516 640 319	516 640 319
	<b>2 132 955 553</b>	<b>2 132 955 553</b>

#### 2023

##### Financial assets

At amortised cost	Total
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\* See Note 53 & 52

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023 Restated*
<b>46. Financial instruments (continued)</b>		
Receivables from exchange transactions	9 119 380	9 119 380
Consumer debtors from exchange	247 561 361	247 561 361
Cash and cash equivalents	161 200 434	161 200 434
	<b>417 881 175</b>	<b>417 881 175</b>

### Financial liabilities

	At amortised cost	Total
Consumer deposits	25 391 158	25 391 158
Borrowings	27 094 146	27 094 146
Trade and other payables from exchange transactions	1 607 403 277	1 607 403 277
	<b>1 659 888 581</b>	<b>1 659 888 581</b>

### 47. Risk management

#### Financial risk management

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

Council has the overall responsibility for the determination of the municipality's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Accounting Officer.

The Accounting Officer receives regular reports from the Directors through which it reviews the effectiveness of the processes put in place and the appropriateness of the objectives and policies it sets. The municipality's internal auditors also review the risk management policies and processes and report their findings to the Audit Committee. The overall objective of Council is to set policies that seek to reduce risks as far as possible without unduly affecting the Municipality's competitiveness and flexibility.

#### 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.

At 30 June 2024	Less than 1 year	Between 1 and 5 years	Total
Trade and other payables	1 554 850 714	-	1 554 850 714
Finance lease obligations	2 423 787	638 631	3 062 418
Other financial liabilities	10 348 750	7 323 900	17 672 650
Consumer deposit	26 787 582	-	26 787 582
Municipal debt relief	150 130 738	366 509 582	516 640 320
<b>At 30 June 2023</b>	<b>Less than 1 year</b>	<b>Between 1 and 5 years</b>	<b>Total</b>
Trade payable and other payables	1 607 190 791	-	1 607 190 791
Finance lease obligations	2 786 396	3 034 269	5 820 665
Consumer deposits	25 391 158	-	25 391 158

\* See Note 53 & 52



# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023
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### 47. Risk management (continued)

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counterparty. This risk arises due to changes in the financial circumstances of the counter party and other factors subsequent to the municipality obtaining the financial asset.

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

There have been no material change in credit risk exposure by the municipality from the previous year. Financial assets exposed to credit risk at year end were as follows: Financial assets exposed to credit risk at year end were as follows:

Financial instrument	2024	2023
Receivables from exchange transactions	21 676 844	9 193 641
Receivables from non-exchange transactions	8 266 226	9 051 506
Consumer debtors from exchange transactions	234 208 368	247 561 361
Consumer debtors from non-exchange transactions	47 810 658	29 919 946
Cash and cash equivalents	171 957 408	161 200 434

#### Market risk

##### Interest rate risk

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

The municipality's interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the municipality to cash flow interest rate risk. Borrowings issued at fixed rates expose the municipality to fair value interest rate risk.

The municipality charge the interest rate of 11.75% on the outstanding customer accounts. For quantitative information on cash flow interest rate risk refer to liquidity risk above.

\* See Note 53 & 52

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023
<b>48. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Capital Commitments	170 715 554	94 731 172
• Capital commitments from Internally funded projects	14 151 531	-
	<b>184 867 085</b>	<b>94 731 172</b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	184 867 085	94 731 172
<b>Authorised operational expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Operational Commitments	50 624 968	2 232 377
<b>Total operational commitments</b>		
Already contracted for but not provided for	50 624 968	3

### Capital Commitment

Capital Commitment of the municipality were funded by conditional grants from National Treasury in terms of DORA Act. The following grants are used to fund capital projects:

Municipal Infrastructure Grant (MIG)  
Water Services infrastructure Grant( WSIG)  
Integrated National Energy Programme (INEP)  
Mining Town Grant ,

### Operational Commitment

The municipality's operational commitment are funded by interal generated funds.

\* See Note 53 & 52

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023
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### 49. Contingencies

Litigations are in process against the municipality relating to a dispute with defendants in the following cases, should the judgement or ruling be in favour of the defendants the municipality will have to pay the estimated damages. The potential extent of the liability cannot be determined, since it is subject to litigation. The provisional estimate based on management assessment is R 62 198 401 (2023 : R 21 638 897). The merits must still be determined and could result in a lesser or greater amount.

Review Application- Valuation of Mining Properties (Case number: 34205/2015)	10 000 000	5 000 000
High Court- Provision of water to MInes (Case number: HC 23558/2011)	10 000 000	10 000 000
Notice of Motion: Claim for Pension Benefits (Case number: 16414/20)	1 837 000	200 000
Enforcement of Construction Guarantee- Relocation of Khutsong Reservoir with Infrastructure (Case number: 051559/2023)	500 000	500 000
Civil claim- Money stolen (case number: 357/2022)	20 000	20 000
Notice of Motion- Acknowledgement of debts (Case number: 22-060783)	200 000	200 000
Drafting of policies and by-laws	6 300 000	-
Notice of motion- Joinder application ( Case number: JR1100/2022)	500 000	-
Investigation of theft and vandalism of Infrastructure	400 000	-
Investigation of rates and taxes	200 000	-
Legal Support to TKQ Trading: provision of technical support to Municipality	652 567	-
Notice of motion- application to interdict	4 250 000	-
Financial system dispute (BIQ)	1 560 000	1 702 833
Bargaining Council Awards (JR599/21)	-	350 000
Review Application - Bargaining Council Award	-	60 000
Review Application - Condonation ruling	-	250 000
Review Application - Bargaining Council Award	-	300 000
Review Application - Condonation ruling	-	350 000
Review Applikcation - Arbitration award JR803/22	300 000	300 000
Review Application - Arbitration Award	-	230 000
Notice of Motion - Application for contempt of court, condonation, compensation for salary disparity and paymnet for salary disparity	-	400 000
Urgent stay application	-	850 000
Urgent Interdict- Illegal Forcheville strike	-	926 064
Consulting and investigations - findings for 21/22 and 22/23 audit findings financial years	500 000	-
Combined summons: Damage to motor vehicle	600 000	-
Legal opinion - legal opinion of Khutsong Waste - Water treatment works	500 000	-
Notice of motion: Municipal Bill BLC Twala	600 000	-
Combined summons - recoveries salaries and benefits paid	4 600 000	-
Legal assistance - legal assistance for lodging a criminal case	1 600 000	-
Combined summons - Breach of contract	3 000 000	-
Legal opinion - legal opinion on EasyPay contract	800 000	-
Notice of motion and review application - Labour court restatement and review application against SALGBC Award	250 000	-
Review Application - review application against SALGBC Award	250 000	-
Review Application - review application against SALGBC Award	150 000	-
Condonation - condonation ruling in favour of the Municipality	50 000	-
Review application - Application for reviewing the Bargaining Council ruling	50 000	-
Condonation - condonation ruling in favour of the Municipality	50 000	-
Arbitration - Arbitration in favour of the Municipality	300 000	-
Review application -	230 000	-
SALGBC - Application/ interpretation of main collective agreement	524 372	-
Unfair dismissal - unfair dismissal	817 713	-
Unfair dismissal- unfair dismissal	6 200 000	-
Internal disciplinary hearing - Gross insubordination, insolence, bringing name of the employer in disrepute, abusive language	650 000	-
Internal disciplinary hearing - use of intoxication liquor or use of drugs while at duty	652 242	-
Internal disciplinary hearing - Irregular authorisation of salaries and failure to execute lawful instructions	450 000	-

\* See Note 53 & 52

# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

	2024	2023
<b>49. Contingencies (continued)</b>		
Internal disciplinary hearing - Irregular and issuing section 53 certificate	597 562	-
Internal disciplinary hearing - procurement of a service provider without internal processes and SCM policies	450 000	-
Internal disciplinary hearing - failing to carry out lawful and reasonable instruction to return to work	569 036	-
Request for legal opinion - The legal implication of Public Protectors Report pertaining to allegations of Irregular appointment of Ms Nonceba Nombili by the Municipality	475 749	-
Request for legal opinion - The committee system competitive Bids in Local Government: A conflict of Interest perspective	262 160	-
Investigation - investigation	300 000	-
	<b>62 198 401</b>	<b>21 638 897</b>

### Contingent liabilities incurred relating to interests in other entities

#### Contingent Assets

The municipality is currently having a dispute with the mines over the General Valuation Roll of 2019. The Mines have set aside funds payable to the municipality into a Trust Account administered by the Municipal Lawyers amounting to R 80 483 185 (2023: R65 143 888). Should the judgement or ruling be in favour of the municipality, the municipality will be entitled to receive the excess of the amount in the Trust Account.

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

	2024	2023
<b>50. Related parties</b>		
Accounting Officer	DD Mabuza	
Chief Financial Officer	P Makhubela	
Executive Director - Infrastructure Development		
Executive Director - Community Services		
Executive Director - Economic Development & Planning	Refer to note 33	
Executive Director - Corporate Shared & Services	Refer to note 33	
Close family member of key management	S Ndolela (SCM) Uncle of Director Cville Electrical Contractors	
	M.P Mbokazi (Traffic) Half brother of Director Dlozi Trading and Projects	
The following Councillors and/or Management of the municipality and/or close family members of Councillors / Management have relationships with businesses as indicated below		
<b>Related party transactions</b>		
<b>Giya Dlozi - Transactions</b>		
Invoices	1 221 768	-
Payments	1 173 721	-
Transfers to water and lights	195 000	-
<b>Cville Electrical Contractors</b>		
Invoices	217 554	-
Payments	188 220	-
Outstanding amounts	29 334	-
<b>Remuneration of management</b>		

\* See Note 53 & 52

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023
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### 50. Related parties (continued)

#### Management class: Executive management

#### 2024

Name	Basic salary	Bonus	Travel, motor car, Accomodation and Subsistence	Contribution, Pension and medical aid	Other benefits received	Total
Municipal Manager: DD Mabuza	1 442 972	-	371 210	469 792	-	2 283 974
Executive Director: Infrastruture Development: SL Mdletshe	1 119 918	-	205 838	402 684	-	1 728 440
Acting Chief Financial Officer: Mr MB Dlamini	-	-	154 117	-	-	154 117
Executive Director: Corporate Services- DE Mokoma	587 981	-	237 141	2 639	-	827 761
Executive Director: Economic Development and Planning- N Molefe	471 807	-	160 000	1 771	-	633 578
Chief Operating Officer- Molokwane	435 265	-	196 598	1 771	-	633 634
Executive Director; Community Services: SE Mantjane	1 130 047	-	428 478	1 805 632	-	3 364 157
Acting Executive Director: Corporate Services - SB Mazibuko	836 485	69 707	165 586	269 135	42 240	1 383 153
Acting Executive Director Corporate: Seathlolo	836 485	69 707	153 595	251 011	-	1 310 798
Acting Executive Director: Economic Development & Planning - Segakweng	836 485	69 707	166 391	239 513	-	1 312 096
Chief Financial Officer- P Makhubela	570 851	-	254 202	54 130	-	879 183
	<b>8 268 296</b>	<b>209 121</b>	<b>2 493 156</b>	<b>3 498 078</b>	<b>42 240</b>	<b>14 510 891</b>

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023
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### 50. Related parties (continued)

#### 2023

Name	Basic salary	Bonuses	Travel, motor car, Accomodation, subsistence and other allowances	Contributions to UIF, pension and medical aid funds	Other benefits received	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 Director Corporate Services: NA Mbilini	793 629	66 136	159 889	4 194	79 544	1 103 392
Acting Executive Director: Economic Development and Planning: JH Smith	793 629	66 136	236 544	269 135	-	1 365 444
Acting Director: Economic Development and Planning: NM Jofile	793 629	66 136	170 990	246 251	36 973	1 313 979
	<b>7 933 192</b>	<b>462 952</b>	<b>2 522 440</b>	<b>2 761 747</b>	<b>322 521</b>	<b>14 002 852</b>

\* See Note 53 & 52

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023
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### 51. Change in estimate

#### Property, plant and equipment

Changes in estimates are as a result of useful life adjustment based on the condition of the asset resulting in an overall decrease in depreciation for the year. Furthermore, useful lives were updated based on CIDMS (Cities Infrastructure Delivery Management System) guidelines.

Heading	Depreciation after changes in estimates	Depreciation before changes in estimates	Changes in estimates
Community Facilities	6 665 438	7 330 389	(664 951)
Electrical Infrastructure	13 630 579	47 551 787	(33 921 207)
Housing	346 480	352 143	(5 663)
Operational Buildings	4 712 329	3 820 740	891 589
Roads Infrastructure	67 050 970	55 027 497	12 023 473
Sanitation Infrastructure	8 007 890	9 496 404	(1 488 514)
Solid Waste Infrastructure	1 059 261	1 162 038	(102 777)
Sports and Recreational	3 948 649	3 710 460	238 188
Stormwater Infrastructure	15 051 727	12 673 753	2 377 975
Computer equipment	1 317 139	1 611 709	(294 570)
Furniture and office equipment	4 515 846	5 757 359	(1 241 513)
Machinery and Equipment	413 541	460 390	(46 849)
Transport assets	4 319 539	4 199 559	119 980
Water Supply infrastrure	14 071 661	23 981 874	(9 910 214)
	<b>145 111 049</b>	<b>177 136 102</b>	<b>(32 025 053)</b>

### 52. Prior period errors

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

#### Statement of financial position

Receivables from from exchange transactions	-	(9 458 481)
Receivables from exchange transactions	-	(5 528 378)
Vat Receivables	-	1 136 848
Cash and cash equivalents	-	3 168 371
Investment properties	-	50 964 827
Property, plant and equipment	-	138 240 733
Intangible assets	-	919 198
Heritage assets	-	54 182
other financila liabilities	-	(4 067 068)
Payables from exchange exchange trasctions	-	(59 070 477)
Finance lease libility	-	(2 654 744)
Consumer debtors	-	3 710 144
Unspents conditional grants	-	19 842 429
Employee benefits obligation	-	5 590 749
Provisions	-	541 541
Bank overdraft	-	51 960 133
Accumulated surplus	-	(196 333 959)

\* See Note 53 & 52



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## Notes to the Annual Financial Statements

	2024	2023
<b>52. Prior period errors (continued)</b>		
<b>Statement of financial performance</b>		
Interest earned from short term deposit	-	59 761
Actuarial gain	-	(771 000)
Employee related cost	-	13 291 000
Depreciation and amortisation	-	14 478 448
Impairment loss	-	16 523 854
Debt impairment	-	(12 375 000)
Constructed services	-	2 022 944
Loss on disposal of assets and liabilities	-	(685 932)

### 53. Prior-year adjustments

The comparatives have been restated to account for prior period errors. Below is a summary of the total effect that the prior period errors, changes in accounting policies and reclassifications of comparatives had on the amounts previously disclosed in the annual financial statements, followed by a description of each individual prior period error with the amounts involved:

#### Statement of financial position

##### 2023

	Note	As previously reported	Correction of error	Restated
<b>Current Assets</b>				
Inventories	8	957 802	-	957 802
Receivables from exchange transactions	11	18 652 122	(9 458 481)	9 193 641
Receivables from non-exchange transactions	12	14 579 884	(5 528 378)	9 051 506
VAT receivable	13	119 010 288	1 136 848	120 147 136
Consumer debtors from exchange transactions	15	247 561 361	-	247 561 361
Consumer debtors from non-exchange transactions	10	29 919 946	-	29 919 946
Cash and cash equivalents	14	158 032 053	3 168 371	161 200 424
<b>Non-Current Assets</b>				
Investment property	2	217 299 784	50 964 827	268 264 611
Property, plant and equipment	3	3 053 347 904	138 240 733	3 191 588 637
Intangible assets	4	207 821	919 198	1 127 019
Heritage assets	5	136 178	54 182	190 360
<b>Current Liabilities</b>				
Other financial liabilities	16	(9 371 245)	(48 847)	(9 420 092)
Finance lease obligation	17	(4 149 873)	1 363 477	(2 786 396)
Payables from exchange transactions	6	(1 548 332 800)	(59 070 477)	(1 607 403 277)
Consumer deposits		(29 101 902)	3 710 144	(25 391 758)
Employee benefits	7	(5 705 749)	(3 173 251)	(8 879 000)
Unspent conditional grants and receipts	18	(67 736 186)	19 842 429	(47 893 757)
Provisions	19	(34 097 001)	(4 658 906)	(38 755 907)
Bank overdraft	14	(51 960 133)	51 960 133	-
<b>Non-Current Liabilities</b>				
Other financial liabilities	16	(13 655 833)	(4 018 221)	(17 674 054)
Employee benefits	7	(140 612 000)	8 764 000	(131 848 000)
Finance lease		-	(3 034 269)	(3 034 269)
Provisions	19	(6 532 014)	5 200 447	(1 331 567)
Accumulated surplus		(1 948 450 407)	(196 333 959)	(2 144 784 366)
		-	-	-

\* See Note 53 & 52

# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

			2024	2023	
53. Prior-year adjustments (continued)					
Statement of financial performance					
2023					
	Note	As previously reported	Correction of error	Re-classification	Restated
Revenue from exchange transactions					
Service charges	22	841 370 222	-	-	841 370 222
Rental of facilities	23	1 421 167	-	-	1 421 167
Interest received (trading)		174 270 063	-	-	174 270 063
Agency fees	25	12 830 186	-	1 296	12 831 482
Licences and permits		1 296	-	(1 296)	-
Operational revenue	26	4 245 066	-	-	4 245 066
Interest received - investment	27	12 757 950	59 761	-	12 817 711
Actuarial gain		18 069 426	(771 000)	-	17 298 426
Revenue from non-exchange transactions					
Property rates	28	581 883 095	-	-	581 883 095
Surcharges and Taxes		23 783 700	-	(23 783 700)	-
Government grants and subsidies	29	460 017 030	-	21 532 000	481 549 030
Fines, Penalties and Forfeits	31	24 190 761	-	-	24 190 761
Public contributions and donations		-	-	2 251 700	2 251 700
Expenditure					
Employee related costs	33	(383 746 056)	13 291 000	-	(370 455 056)
Remuneration of councillors	34	(25 460 352)	-	-	(25 460 352)
Depreciation and amortisation	35	(156 239 843)	14 478 448	-	(141 761 395)
Impairment Loss	36	(16 523 854)	16 523 854	-	-
Finance costs	37	(144 451 408)	(12 375 000)	-	(156 826 408)
Debt Impairment	38	(791 414 976)	(16 495 714)	-	(807 910 690)
Inventory Consumed		(311 674 426)	-	-	(311 674 426)
Bulk purchases	39	(370 579 936)	-	-	(370 579 936)
Contracted services	40	(118 976 417)	2 022 944	-	(116 953 473)
Loss on disposal of assets and liabilities		(2 394 761)	(685 932)	-	(3 080 693)
Operational Costs	43	(64 192 763)	-	-	(64 192 763)
Surplus for the year		(230 814 830)	16 048 361	-	(214 766 469)

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

			2024	2023
<b>53. Prior-year adjustments (continued)</b>				
<b>Errors</b>				
The following prior period errors adjustments occurred:				
Description	Reason	Increase in	Decrease in	Amount
Receivables from exchange transactions	Changes to receivables from exchange debt impairment amount reclassified to expenditure and reclassifications of agency fees balances from receivables from non exchange	Agency Fees	Receivables from exchange transactions	9 458 481.00
Receivables from non-exchange transactions	Changes to receivables from exchanges is mainly due to reclassifications of agency fees balance to receivables from exchange	Agency Fees	Receivables from non-exchange transactions	5 528 378.00
Vat receivables	Correction of Vat receivables incorrectly	Vat Receivable	Accumulated	1 136 848.00
Cash and cash equivalents	Reversal of 2023 outstanding cheques from	Cash	Trade payable	3 168 371.00
Investment Property	Decrease in Investment Property is due to the valuation method used to recognise land previously omitted from the fixed asset register	Investment Property	Accumulated	50 964 826.96
Property plant and equipment	Reclassification of PPE from prior year	Property, plant and equipment	Accumulated	138 240 733.00
Intangible Assets	Intangible assets incorrectly accounted	Intangible Assets	Accumulated	919 198.00
Heritage assets	Being the reversal of Depreciation on Heritage assets	Heritage Asset	Depreciation on Heritage assets	54 182.00
Other financial liabilities	An adjustment was made on the other financial liabilities. This amount was erroneously disclosed under finance lease liability and long term loan interest accrued erroneously disclosed under payables from exchange.	Other financial liabilities	Finance lease obligations	4 067 068.00
Finance lease obligations	Correction of finance lease incorrectly accounted	Finance lease obligations	Accumulated surplus	2 654 744.00
Payables from exchange transactions	Adjustments were made to trade payables due to reversals of outstanding cheques of R53 233 003 , reclassification of unallocated deposits from consumer deposits(R3 710 744), recognising of unallocated deposits of R1 904 436 and accruals amounting to R222 094	Payables from exchange transactions	Cash and cash equivalents	59 070 477.00

\* See Note 53 & 52

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			2024	2023
<b>53. Prior-year adjustments (continued)</b>				
Consumer deposits	A reclassification of unallocated deposit was made to trade and other payables.	Payables from exchange transactions	Consumer deposits	3 710 744.00
Employee Benefit obligations	Changes to employee benefit as a result of incorrect values used for the calculation of the Employee Benefit	Employee Ben	Accumulated	3 173 251.00
Unspent grants	Prior year correction of Unspent grants n	Accumulated s	Unspent grant	19 842 429.00
Provisions	Correction of prior period provision calc	Provision	Accumulated surplus	1 480 838.00
Cash and cash equivalents	Cash and cash equivalents was overstated as a result 2023 outstanding cheques from Nedbank	Cash and cash	Trade and other payables [SFP]	51 960 133.00
Agency fees	Licences and permits were reclassified to	Agency fees	Licences and permits	1 296.00
Other financial liabilities	An adjustment was made on the other financial liabilities. This amount was erroneously disclosed under finance lease liability and long term loan interest accrued erroneously disclosed under payables from exchange.	Other financial	Finance lease obligations	5 381 698.00
Employee Benefit obligations	Changes to employee benefit as a result of incorrect values used for the calculation of the Employee Benefit	Employee Ben	Accumulated	8 764 000.00
Finance lease obligations	Correction of finance lease incorrectly acc	Finance lease	Accumulated surplus	3 034 269.00
Provisions	Correction of prior period provision calc	Provision	Accumulated surplus	541 541.00
Actuarial gain	Changes in actuarial gain were due to corr	Employee benefit obligation	Actuarial gain	771 000.00
Government Grants and Subsidies	Reclassification of Donations from Gove	Public Donatio	Government g	2 251 700.00
Surcharges and Taxes	Reclassifications of Surcharges to Gover	Government g	Surcharges and Taxes	23 783 700.00
Employee costs	Corrections of prior period errors	Accumulated s	Employee cos	13 291 000.00
Finance costs	Correction of Finance costs as a result of Employee benefit obligations change in input information by Actuaries	Finance costs	Accumulated	12 375 000.00
Debt impairment	An adjustment was made to the debt impairment. This amount was erroneously mapped under receivables from exchange	Debt impairme	Recievables from exchange	16 495 714.00

\* See Note 53 & 52

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			2024	2023
<b>53. Prior-year adjustments (continued)</b>				
Contracted Services	Adjustments to the contracted services were made to the prior year AFS due to reallocation of Ricoh and LCK payments to Finance Lease Liability.	Finance lease obligation	Contracted Services	2 022 944.00
Interest received on investments	Correction of accrued interest	Receivables	Interest received	59 761.00
Depreciation and amortisation	Correction of overstated depreciation	Accumulated Depreciation	Depreciation	14 478 448.00
Impairment Losses	Reversal of impairment loss	Accumulated Impairment	Impairment loss	16 523 85.004
Government grants and subsidies	Reclassifications of Surcharges to Government Grants and Subsidies	Surcharges	Government grants	21 532 000.00
Loss on disposal of assets	Correction of loss on disposal of assets misstated	Loss on disposal	Accumulated Depreciation	685 932.00

## 54. Going concern

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

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.

The following measures are currently in place to ensure future viable operations of the municipality :

The Minister of Finance and MEC of Finance in Gauteng approved the Financial Recovery Plan in May 2024, which mandates the municipality to implement the 4 pillars of the turn around strategy, which enforces financial recovery and service delivery key performance areas which are mandatory to implement and report to Provincial Treasury monthly. The 4 pillars are governance, service delivery, financial management and institutional performance.

The municipality has been approved into the Debt Relief Programme in terms of circular 124 issued by National Treasury on 4 December 2023, which has 14 pillars of compliance ,of which the municipality is monitored and reports monthly to Provincial and National Treasury.

The financial challenges currently being experienced by the municipality are ringfenced to revenue recovery, infrastructure rehabilitation, and revenue enhancement . Several strategies are currently being implemented in ensuring the replacement of key infrastructure to improve billing , liquidity and revenue collection.

## 55. Events after the reporting date

There were no material events that occurred between the end of the reporting period 30 June 2024 and the date that the financial statements are authorised for issue.

\* See Note 53 & 52

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023
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### 56. Unauthorised expenditure

Opening balance as previously reported	472 720 403	-
Add: Unauthorised expenditure - current	1 030 054 567	472 720 403
<b>Closing balance</b>	<b>1 502 774 970</b>	<b>472 720 403</b>

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

Non-cash	952 789 560	312 069 932
Cash	77 265 006	160 650 471
	<b>1 030 054 566</b>	<b>472 720 403</b>

#### Analysed as follows: non-cash

Impairment loss	50 675 567	-
Finance charges	50 314 497	-
Provision of debt impairment	781 896 319	312 069 932
Loss on disposal of assets	69 903 177	-
	<b>952 789 560</b>	<b>312 069 932</b>

#### Analysed as follows: cash

Finance charges	-	32 055 997
Inventory consumed	-	102 895 487
Contracted services	77 265 006	22 408 263
Other	-	3 290 724
	<b>77 265 006</b>	<b>160 650 471</b>

#### Unauthorised expenditure: Budget overspending – per municipal department:

Other	797 448 023	376 466 587
Community Service	153 955 023	96 253 816
Corporate and Shared Services	76 321 215	-
Spatial Planning	2 330 305	-
	<b>1 030 054 566</b>	<b>472 720 403</b>

### 57. Fruitless and wasteful expenditure

Opening balance	320 356 639	168 540 096
Current: Fruitless and wasteful expenditure	144 406 479	138 444 087
Add: Fruitless and wasteful expenditure identified - prior period corrections	-	13 372 456
<b>Closing balance</b>	<b>464 763 118</b>	<b>320 356 639</b>

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

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### 57. Fruitless and wasteful expenditure (continued)

#### Details of fruitless and wasteful expenditure

Eskom	42 424 310	97 502 425
Rand Water	100 479 856	52 319 413
Office of the Auditor General	106 788	172 250
Telkom	6 550	35 395
Compensation Fund	1 387 841	78 290
Quill	1 134	897 089
Tallis Fleet	-	811 678
	<b>144 406 479</b>	<b>151 816 540</b>

During the year under review the municipality incurred fruitless and wasteful expenditure with a total accumulated value of R 464 763 118 .

- Council and management are taking appropriate steps into analysing consequences of the above expenditure.

- A detailed list of Fruitless and wasteful expenditure is available at the Municipality for inspection.

- .Fruitless and wasteful expenditure Register has been tabled to Council and sent to MPAC for investigations.

#### Amount recovered

### 58. Irregular expenditure

Opening balance as previously reported	467 610 933	187 235 609
Irregular expenditure- current year	176 836 135	62 355 269
Add: Irregular expenditure - prior period	32 413 361	218 020 055
<b>Closing balance</b>	<b>676 860 429</b>	<b>467 610 933</b>

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## Notes to the Annual Financial Statements

	2024	2023
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### 58. Irregular expenditure (continued)

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

Outdated CSD	5 531 532	-
Three written quotations not invited	2 128 550	-
Deviations not valid	5 126 582	892 301
Tax clearances not obtained	1 828 078	-
Discrepancies between BEC and BAC	120 845 539	-
Tenders incorrectly awarded	32 852 865	-
Out of contract	8 522 989	61 462 968
	<b>176 836 135</b>	<b>62 355 269</b>

Durring the year under review, the municipality incurred irregular expenditure with an accumulative amount of R676 860 429.

- Council and management are taking appropriate steps into analysing consequences of the above expenditure
- A detailed list of irregular expenditure is available at the Municipality for inspection.
- The irregular expenditure has been tabled to Council and referred to MPAC for investigation.

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

#### Contributions to organised local government

Opening balance	10 474 653	8 373 653
Current year subscription / fee	4 560 526	4 101 000
Amount paid - current year	(2 500 000)	(2 000 000)
	<b>12 535 179</b>	<b>10 474 653</b>

#### Audit fees

Opening balance	2 638 910	-
Current year audit fees	11 706 483	12 340 017
Amount paid - current year	(14 260 866)	(9 701 107)
	<b>84 527</b>	<b>2 638 910</b>



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## Notes to the Annual Financial Statements

	2024	2023
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### 59. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### PAYE and UIF

Current year subscription / fee	67 137 646	57 325 353
Amount paid - current year	(67 137 646)	(57 325 353)
	-	-

#### Pension and Medical Aid Deductions

Current year subscription / fee	109 880 457	105 850 786
Amount paid - current year	(109 880 457)	(105 850 786)
	-	-

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

	2024	2023
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### 59. 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 2024:

30 June 2024	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
AB Baloyi	302	-	302
WA Fihla	3 064	4 965	8 029
DH Harman	3 389	-	3 389
MM Lekgoba	2 937	10 563	13 500
DV Masiu	2 731	6 821	9 552
J Matabane	3 191	16 381	19 572
CYV Matse	1 688	608	2 296
SB Mbecheni	2 733	-	2 733
C Mhlabane	3 561	24 036	27 597
NG Mmqandi	746	-	746
M Moyeni	1 800	-	1 800
TE Mphithikezi	30	-	30
BN Mpupu	95	-	95
TL Nethwadzi	2 892	-	2 892
AT Ngqele	519	1 478	1 997
M NKabinde	1 593	-	1 593
MB Nkabinde	771	1 683	2 454
LG Ntilane	4 325	-	4 325
MC Pitlele	1 315	-	1 315
C Rebelo	1 229	-	1 229
ME Segakweng	3 199	30 217	33 416
DV Tabane	7 343	-	7 343
TS Thlapi	173	-	173
NE Wana	8 153	163 963	172 116
AD Zwart	1 945	-	1 945
	<b>59 724</b>	<b>260 715</b>	<b>320 439</b>

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

30 June 2024	Highest outstanding amount	Aging (in days)
WA Fihla	4 965	90
MM Lekgoba	10 563	90
DV Masiu	6 821	90
J Matabane	16 381	90
CYV Matse	608	90
C Mhlabane	24 036	90
AT Ngqele	1 478	90
MB Nkabinde	1 683	90
ME Segakweng	30 217	90
NE Wana	163 963	90
	<b>260 715</b>	<b>900</b>

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

	2024	2023
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### 60. 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	-	1 750 150
Single supplier	11 250	-
Impractical	123 415	433 571
Emergency and Impractical	8 197 197	1 561 222
Not obtained three quotations	-	87 929
	<b>8 331 862</b>	<b>3 832 872</b>

### 61. Segment information

#### General information

#### Identification of segments

The municipality is organised and reports to management on the basis of Five major functional areas: Community Service, Spatial Planning, Infrastructure, Shared Services and other. The segments were organised around the type of service delivered and the target market.

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

Reportable segments are identified based on activities performed of the municipality that generates economic benefits or service potential including internal services that contribute to achieving the municipality's objectives without necessarily generating net cash inflows.

Segmental reporting was based and identified on the MFMA s71 monthly budget statements/reports that are reviewed by senior management and Council to make strategic decisions and in monitoring segment performance. The disclosure of information about segments in these reports are organised around the type of service delivered, in a standardised format namely the C2 schedule. This is considered appropriate for external reporting purposes to achieve the objectives of GRAP 18.

Separate financial and other relevant information on geographical areas in which the municipality operates is not available as the municipality only operates in the Gauteng Province, and within its demarcated boundaries.

#### Aggregated segments

Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments were sufficiently similar to warrant aggregation..

\* See Note 53 & 52

**Notes to the Annual Financial Statements**

	2024	2023
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**61. Segment information (continued)**

**Types of goods and/or services by segment**

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

Reportable segment	Goods and/or services
Community Service	Primary services providing community safety, crime prevention and law enforcement
Spatial Planning	Urban and developmental planning in accordance with the relevant laws and regulations. Environmental planning and protection for long term sustainability.
Infrastructure	Primary basic service provision including water, electricity, sanitation and refuse.
Shared services	Human Resource management, Litigation and labour relations,
Other	Support services in relation to financial management, It Services and governance decision making.

\* See Note 53 & 52

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## Notes to the Annual Financial Statements

### 61. Segment information (continued)

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

2024

	Community Services	Spatial Planning	Infrastructure	Shared Services	Other Services	Total
<b>Revenue</b>						
Property Rates	-	-	-	-	765 344 212	765 344 212
Service charges	87 723 693	12 354	799 403 514	-	171 231	887 310 792
Rental of facilities	-	2 057 531	50 684	733 034	62 261	2 903 510
Interest received on Arrears	-	-	-	-	310 770 865	310 770 865
Fines, Penalties, Forfeits and Agency fees	34 042 355	25 144	-	-	297 045	34 364 544
Government Grants and Subsidies	60 630 637	-	318 426 154	2 253 093	89 659 822	470 969 706
Interest received investments	-	-	-	-	19 709 292	19 709 292
other income	1 074 232	2 354 598	214 782	-	25 886 405	29 530 017
Reversal of impairment	21 487 813	-	49 145 373	-	8 421 395	79 054 581
Municipal debt relief	-	-	-	-	213 206 718	213 206 718
<b>Total segment revenue</b>	<b>204 958 730</b>	<b>4 449 627</b>	<b>1 167 240 507</b>	<b>2 986 127</b>	<b>1 433 529 246</b>	<b>2 813 164 237</b>
<b>Entity's revenue</b>						<b>2 813 164 237</b>

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## Notes to the Annual Financial Statements

### 61. Segment information (continued)

#### Expenditure

	Community Services	Spatial Planning	Infrastructure	Shared Services	Other Services	Total
Employee related costs	155 396 926	17 601 329	132 308 885	43 751 635	65 792 587	414 851 362
Remuneration of Councillors	-	-	-	-	26 331 648	26 331 648
Loss on disposal of assets and liabilities	5 677 977	16 240 594	45 603 023	-	(13 178)	67 508 416
impairment loss	13 774 118	-	-	36 613 644	287 805	50 675 567
Depreciation	1 827 573	150 573	147 440 606	374 645	761 838	150 555 235
Finance costs	3 343 667	-	-	5 087 098	188 873 525	197 304 290
Bulk purchases	-	-	466 244 315	-	-	466 244 315
Inventory Consumed	801 700	-	352 675 826	31 950	101 863	353 611 339
Contracted services	85 530 723	7 206 407	68 418 600	41 457 066	54 237 567	256 850 363
Operational Costs	1 166 321	742 093	4 180 072	66 511 273	8 856 807	81 456 566
Debt impairment	-	-	-	-	1 276 300 860	1 276 300 860
<b>Total segment expenditure</b>	<b>267 519 005</b>	<b>41 940 996</b>	<b>1 216 871 327</b>	<b>193 827 311</b>	<b>1 621 531 322</b>	<b>3 341 689 961</b>
<b>Total segmental surplus/(deficit)</b>	<b>(62 560 275)</b>	<b>(37 491 369)</b>	<b>(49 630 820)</b>	<b>(190 841 184)</b>	<b>(188 002 076)</b>	<b>(528 525 724)</b>

#### Assets

Segment assets	51 575 002	371 218 306	3 190 477 357	4 662 241	395 345 988	4 013 278 894
<b>Total assets as per Statement of financial Position</b>						<b>4 013 278 894</b>

#### Liabilities

Segment liabilities	11 964 548	-	-	151 997 175	2 247 327 612	2 411 289 335
<b>Total liabilities as per Statement of financial Position</b>						<b>2 411 289 335</b>

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

2023

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## Notes to the Annual Financial Statements

### 61. Segment information (continued)

	Community Services	Spartial Planning	Infrastructure	Shared services	Other services	Total
<b>Revenue</b>						
Property reates	-	-	-	-	581 883 095	581 883 095
Services charges	83 181 793	11 715	758 014 349	-	162 365	841 370 222
Rental of facilities and equipment	-	1 007 090	24 808	358 795	30 474	1 421 167
Interest earned from outsatnding debtors	-	-	-	-	174 270 063	174 270 063
Interest earned from short-term deposit	-	-	-	-	12 817 711	12 817 711
Fines, Penalties, Forfeits and Agency Fees	23 963 957	17 700	-	-	209 103	24 190 760
Government Grants & Subsidies	61 992 574	-	325 578 914	2 303 704	91 673 838	481 549 030
other income	1 369 597	2 920 456	266 399	-	32 070 221	36 626 673
<b>Total segment revenue</b>	<b>170 507 921</b>	<b>3 956 961</b>	<b>1 083 884 470</b>	<b>2 662 499</b>	<b>893 116 870</b>	<b>2 154 128 721</b>
<b>Entity's revenue</b>						<b>2 154 128 721</b>
<b>Expenditure</b>						
Employee related cost	138 766 753	15 717 681	118 149 535	39 069 450	58 751 637	370 455 056
Remuneration of concillors	-	-	-	-	25 460 352	25 460 352
Debt impairment loss	69 060 402	-	190 089 298	-	548 760 990	807 910 690
Deprecition	1 720 638	141 763	138 813 507	352 724	732 763	141 761 395
Finance cost	3 003 235	-	-	4 569 160	149 254 013	156 826 408
Bulk purchases	706 621	-	370 579 936	-	-	371 286 557
Contracted services	40 168 003	106 590	32 131 594	19 469 583	25 077 703	116 953 473
Operation costs	927 380	14 051	3 323 711	52 885 284	7 042 336	64 192 762
Loss on disposal of assets	259 105	741 114	2 081 075	-	(601)	3 080 693
Inventory consumed	-	-	310 849 600	28 161	90 044	310 967 805
<b>Total segment expenditure</b>	<b>254 612 137</b>	<b>16 721 199</b>	<b>1 166 018 256</b>	<b>116 374 362</b>	<b>815 169 237</b>	<b>2 368 895 191</b>
<b>Total segmental surplus/(deficit)</b>	<b>(84 104 216)</b>	<b>(12 764 238)</b>	<b>(82 133 786)</b>	<b>(113 711 863)</b>	<b>77 947 633</b>	<b>(214 766 470)</b>

# Merafong City Local Municipality

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Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

### 61. Segment information (continued)

#### Assets

	Community Services	Spatial Planning	Infrastructure	Shared services	Other services	Total
Segment assets	45 830 658	357 732 710	3 280 183 161	4 142 968	351 312 955	4 039 202 452
Capital expenditure	-	-	190 037 871	-	4 525 849	194 563 720
<b>Total segment assets</b>	<b>45 830 658</b>	<b>357 732 710</b>	<b>3 470 221 032</b>	<b>4 142 968</b>	<b>355 838 804</b>	<b>4 233 766 172</b>
<b>Total assets as per Statement of financial Position</b>						<b>4 233 766 172</b>

#### Liabilities

Segment liabilities	9 399 888	-	-	119 415 825	1 765 601 764	1 894 417 477
<b>Total liabilities as per Statement of financial Position</b>						<b>1 894 417 477</b>

### 62. Budget differences

Material differences between budget and actual amounts



# Merafong City Local Municipality

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## Notes to the Annual Financial Statements

2024

2023

### 62. Budget differences (continued)

60.1 **Services charges** - This is due to billing challenges emanating from financial system migration process. Unaccounted losses contribution -8% declined performance.

60.2 **Rental of facilities and equipment** -Rental of facilities is an adhoc sevicees and influenced by customer demands i.e rentals of community halls, Swimming pools etc. Unavailability of the financial systems also frustrated the applications for services and payment for such services.

60.3 **Interest earned from outsatnding debtors** - Anticipated collection rate was poor due to municipality not having a financial system and unable to do regular credit control, resulting in an increase in arrears liable for interest.

60.4 **Agency fees** - Reclassifying a portion from other revenue to Agency fees done at year.

60.5 **Interest received from short-term investment** - During budgeting stage 10% retention was factored and decreases over time due to payment of retentions after i.e twelve months period. Interest received from investments is generated through call accounts, the increase thereof relates to slow spending of capital allocations as the municipality retained more money until mid-term.

60.6 **Property rates** -Property rates increased by 4% in the fincial year, however property rates increase's biggest driver is market value and there was billing files for SV5 that were brought into the GV during the year which were not anticipated in the budget.

60.7 **Public contributions and subsidies** - No classification provided during budgeting stage. It was previously disclosed as a Grant.

60.8 **Fines and penalties** - Positive variance because the municipality budgeted to recognise less revenue than the actual revenue recognised which is +/- R24 mill and this is as a result of the increase in the number of fines issued.

60.9. **Municipal Debt relief** - Merafong City Local Municipality was approved to participate in the Municipal Eskom Debt Relief effective 1 December 2023.

60.10 **Employee related costs**- 7 % salary back pay and overtime payments to employees below senior managers is more than budgeted due to high vacancy rate associated with acting allowances. Noting that employees had to recover the work that was lost due to unavailability of the Financial System (migration process).

60.11 **Deprecition and amortisation** - More completed capitalised assets to FAR. Also due to unanticipated donated asset

6.12. **Impairment loss** - Impairment undertaken at year end, no provision allocation in budget.

60.13 **Debt impairment** - Impairment had been adjusted to +/-R659 mill, a culture of non-payment by consumers experienced in the 2023/24 financial year resulted in the municipality having to make a provision for impairment higher than projected.

60.14. Bulk purchases -Slight increase in consumption by consumers and a portion relates to new human settlement units developed for indigent beneficiaries.

60.15 **Contracted services** - During the 2023/24 Financial period various internal departments identified need to use consultants, specialised services to ensure legislative compliance that promotes service delivery

60.16 **Inventory** - The available water at year-end dropped from prior year due to Rand Water maintenance activity during the month of June 2024 which then means that minimal water can be stored in reserviors.

60.17 **Receivables from exchange transactions** - Non-payment by consumers for sundry services

\* See Note 53 & 52

# Merafong City Local Municipality

(Registration number GT484)

Annual Financial Statements for the year ended 30 June 2024

## Notes to the Annual Financial Statements

	2024	2023
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### 62. Budget differences (continued)

60.18 **Receivables from non-exchange transactions** - Credit control not as effective to ensure collection of traffic fines amount owed to the municipality

60.19 **Vat Receivables** -Less claims to SARS by year-end

60.20 **Consumer debtors from exchange transactions** - The culture of non-payment for services in our communities persist and with the municipality not having a financial system for a period of 5 months, credit control actions could not be implemented fully

60.21 **Consumer debtors from non-exchange transaction** - The culture of non-payment for services in our communities persist and with the municipality not having a financial system for a period of 5 months, credit control actions could not be implemented fully.

60.22 **Cash and cash equivalents** - Low spending on grants resulting in the increase in Cash and Cash equivalent (Call accounts) .

60.23 **Property, plant and equipment** - Changes in Investment Property are due to the followin The Investment Property FAR was reconstructed from FY20 through to FY24 . Items have been transferred out of Investment Property into PPE Land as they were owner occupied and no longer meeting the requirements of GRAP 16.

60.24 **Intangible assets** - Changes due to the addition of CCG system and equalizer system

60.25 **Consmer deposit** - Consumer deposit will vary based on the the number of consumers acquiring new premises or disposing and the minimum deposit amount increased.

60.26 **Employee benefits obligation** - Correction and use of correct computation assumptions

60.27 **Unspent conditional grants and subsidies** - Human settlement, Library and Water Infrastructure Grant not fully spent.

60.28 **Public contribution and docnations-** Doations from Cogta which was not budgeted for

60.29 **Own funding:** Changes due to additions in intangible assets of CCG system. .

### 63. Events after balance sheet date

#### Non Adjusting Event

The Municipality entered into debt settlement arrangement with Randwater on 31 October 2024 whereas the municipality will settle the amount owed to Randwater amounting to R1 117 884 759. The municipaity will settle R997 884 759 over a period of five years from November 2024 to October 2029 and the remaining R200 000 000 over a period of two years from October 2029 to September 2031.

\* See Note 53 & 52