



uPHONGOLO Local Municipality
Annual Financial Statements
for the year ended 30 June 2021

* See Note 43

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

General Information

Nature of business and principal activities

Service Delivery: Rates, Waste Management and General services

Members of Council

Executive committee

Cllr SR Mhlongo- Honourable Mayor
Cllr B Mvelase - Honourable Deputy Mayor

Councillors

Cllr VG Masuku - Honourable Speaker
Cllr KE Nxumalo
Cllr VM Sikhosana
Cllr IA Stokfeer
Cllr PS Ntshangase
Cllr FF Simelane
Cllr BC Nhlabathi - MPAC Chair
Cllr NJ Mkhwanazi
Cllr CB Ndlangamandla
Cllr BC Gumbi
Cllr SV Ndlangamandla
Cllr NP Mavuso
Cllr BC Gumbi
Cllr SV Ndlangamandla
Cllr TA Ntshangase
Cllr D Nyawo
Cllr JS Myeni
Cllr DM Nkanjabanga
Cllr SR Ntsangase
Cllr JC Theron
Cllr BR Shongwe
Cllr PS Sibeko
Cllr MS Masuku
Cllr GH Mpanza
Cllr JW Buthelezi
Cllr MM Nkosi
Cllr AZ Thabede
Cllr NE Nxumalo -Posthumus

Grading of local authority

Grade 2
Low capacity

Municipal Manager

Mr WM Nxumalo

Chief Financial Officer

Mr JV Nkosi

Registered office

61 Martin Street
Pongola
3170

Postal address

PO Box 191
Pongola
3170

Bankers

First National Bank, Standard Bank, Absa Bank and Nedbank

Auditors

Auditor General South Africa

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

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

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| | |
|---------|--|
| COID | Compensation for Occupational Injuries and Diseases |
| DBSA | Development Bank of South Africa |
| GRAP | Generally Recognised Accounting Practice |
| IAS | International Accounting Standards |
| IMFO | Institute of Municipal Finance Officers |
| IPSAS | International Public Sector Accounting Standards |
| MIG | Municipal Infrastructure Grant |
| MEC | Member of the Executive Council |
| MFMA | Municipal Finance Management Act |
| mSCOA | Municipal Standard Chart of Accounts |
| CIGFARO | Chartered Institute of Government Finance, Audit & Risk Officers |

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Officer's Responsibilities and Approval

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

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

I **MB Khali** acknowledges that I am ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable me to meet these responsibilities, I have 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.

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

I have reviewed the municipality's cash flow forecast for the year to 30 June 2021 and, in the light of this review and the current financial position, I am satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the community and state 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.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements will be examined by the Auditor General.

The annual financial statements set out on page 4 - 72, which have been prepared on the going concern basis, were approved and signed by the Acting Accounting Officer on 15 December 2021.

Mr MB Khali
Acting Municipal Manager

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Position as at 30 June 2021

Figures in Rand

| | Note(s) | 2021 | 2020 Restated* |
|---|-------------------------------|--------------------|--------------------|
| Assets | | | |
| Current Assets | | | |
| Statutory receivables from non-exchange transactions | 33.20.15 8 | 4 743 771 | 3 999 073 |
| VAT receivable | 31.20.15.1 9 | - | 1 369 760 |
| Other current assets | 27.20.15 7 | - | 209 968 |
| Receivables from exchange transactions | 31.20.15.1 10 | 22 936 612 | 12 309 441 |
| Cash and cash equivalents | 32.20 11 | 3 659 807 | 29 282 910 |
| | | 31 340 190 | 47 171 152 |
| Non-Current Assets | | | |
| Investment property | 21.20 2 | 61 270 000 | 59 840 000 |
| Property, plant and equipment | 20.20 3 | 351 714 118 | 326 717 772 |
| Intangible assets | 23.40 4 | 1 823 904 | 2 233 074 |
| Heritage assets | 28.20 5 | 70 945 | 70 945 |
| | | 414 878 967 | 388 861 791 |
| Non-Current Assets | | 414 878 967 | 388 861 791 |
| Current Assets | | 31 340 190 | 47 171 152 |
| Total Assets | | 446 219 157 | 436 032 943 |
| Liabilities | | | |
| Current Liabilities | | | |
| Financial liabilities | 41.50.25 12 | 1 086 772 | 2 418 783 |
| Trade and other payables from exchange transactions | 51.20.25 18 | 32 816 009 | 58 532 261 |
| VAT payable | 51.20.25.1 | 1 442 372 | - |
| Consumer deposits | 51.20.25.1 19 | 2 736 960 | 2 034 382 |
| Trade and other payables from non-exchange transactions | 43.20.25 13 | 503 417 | 10 919 270 |
| Provision for bonuses | 52.20.25 15 | 633 703 | 152 226 |
| Long term loans- current portion | 43.80.25 17 | 1 148 647 | 4 403 263 |
| | | 40 367 880 | 78 460 185 |
| Non-Current Liabilities | | | |
| Other financial liabilities | 41.40.20 14 | 341 542 | 341 542 |
| Financial liabilities | 41.50.20 12 | - | 1 086 772 |
| Employee benefit obligation | 43.50.20 6 | 2 090 107 | 1 972 226 |
| Provisions | 52.20.20 15 | 9 868 852 | 7 046 054 |
| Long- service awards | 43.60.20 16 | 1 633 076 | 1 382 878 |
| Long term loans- long term portion | 43.80.20 17 | 1 235 113 | 2 710 586 |
| | | 15 168 690 | 14 540 058 |
| Non-Current Liabilities | | 15 168 690 | 14 540 058 |
| Current Liabilities | | 40 367 880 | 78 460 185 |
| Total Liabilities | | 55 536 570 | 93 000 243 |
| Assets | | 446 219 157 | 436 032 943 |
| Liabilities | | (55 536 570) | (93 000 243) |
| Net Assets | | 390 682 587 | 343 032 700 |
| Accumulated surplus | 40.40.00 | 390 682 587 | 343 032 700 |

* See Note 43

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Financial Performance

Figures in Rand

| | Note(s) | 2021 | 2020 Restated* |
|---|---------|----------------------|----------------------|
| Revenue | | | |
| Revenue from exchange transactions | | | |
| Service charges | 20 | 59 483 117 | 54 517 281 |
| Rental of facilities and equipment | 21 | 631 412 | 611 191 |
| Interest on receivables | 24 | 19 991 687 | 12 118 566 |
| Licences and permits | 23 | 1 366 261 | 1 077 757 |
| Operational revenue | 25 | 1 918 493 | 1 451 143 |
| Interest on investment | 26 | 1 805 117 | 1 844 995 |
| Total revenue from exchange transactions | | 85 196 087 | 71 620 933 |
| Revenue from non-exchange transactions | | | |
| Taxation revenue | | | |
| Property rates | 27 | 44 039 999 | 39 633 514 |
| Transfer revenue | | | |
| Government grants & subsidies | 28 | 221 748 268 | 169 228 183 |
| Fines, Penalties and Forfeits | 22 | 3 309 350 | 2 080 250 |
| Total revenue from non-exchange transactions | | 269 097 617 | 210 941 947 |
| | | 85 196 087 | 71 620 933 |
| | | 269 097 617 | 210 941 947 |
| Total revenue | | 354 293 704 | 282 562 880 |
| Expenditure | | | |
| Employee related costs | 29 | (103 645 200) | (91 851 231) |
| Remuneration of councillors | 30 | (9 742 384) | (9 911 853) |
| Depreciation, amortisation and impairment | 31 | (25 304 911) | (23 152 745) |
| Finance costs | 32 | (1 571 391) | (2 041 158) |
| Debt Impairment | 33 | (32 653 411) | (43 379 173) |
| Bulk purchases | 34 | (34 080 640) | (31 920 342) |
| Transfers and subsidies | | (2 351 870) | (795 808) |
| Operational costs | 35 | (96 865 174) | (69 495 715) |
| Total expenditure | | (306 215 155) | (272 548 025) |
| Total revenue | | 354 293 704 | 282 562 880 |
| Total expenditure | | (306 215 155) | (272 548 025) |
| Operating surplus | | 48 078 549 | 10 014 855 |
| Fair value adjustments | 36 | 1 430 000 | 409 000 |
| Actuarial gains/(losses) | 16&6 | (1 135 324) | (158 930) |
| Profit/(loss) on sale of capital assets | | (723 338) | 124 588 |
| Surplus before taxation | | 47 649 887 | 10 389 513 |
| Taxation | | - | - |
| Surplus/(deficit) for the year | | 47 649 887 | 10 389 513 |

* See Note 43

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Changes in Net Assets

| Figures in Rand | Accumulated surplus | Total net assets |
|---|---------------------|--------------------|
| Opening balance as previously reported | 390 275 436 | 390 275 436 |
| Adjustments | | |
| Correction of prior period errors | (57 632 249) | (57 632 249) |
| Balance at 01 July 2019 as restated* | 332 643 187 | 332 643 187 |
| Changes in net assets | | |
| Surplus for the year | 10 389 513 | 10 389 513 |
| Total changes | 10 389 513 | 10 389 513 |
| Restated* Balance at 01 July 2020 | 343 032 700 | 343 032 700 |
| Changes in net assets | | |
| Surplus for the year | 47 649 887 | 47 649 887 |
| Total changes | 47 649 887 | 47 649 887 |
| Balance at 30 June 2021 | 390 682 587 | 390 682 587 |

* See Note 43

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Cash Flow Statement

Figures in Rand

| | Note(s) | 2021 | 2020 Restated* |
|---|---------|----------------------|----------------------|
| Cash flows from operating activities | | | |
| Receipts | | | |
| Sale of goods and services | | 90 439 737 | 81 789 719 |
| Grants | | 270 102 020 | 197 487 832 |
| Interest income | | 1 805 117 | 1 844 995 |
| | | 362 346 874 | 281 122 546 |
| Payments | | | |
| Employee costs | | (104 068 144) | (91 465 997) |
| Suppliers | | (217 988 271) | (123 275 974) |
| Finance costs | | (821 357) | (1 649 073) |
| Councillors allowances | | (9 742 384) | (9 911 854) |
| | | (332 620 156) | (226 302 898) |
| Total receipts | | 362 346 874 | 281 122 546 |
| Total payments | | (332 620 156) | (226 302 898) |
| Net cash flows from operating activities | 38 | 29 726 718 | 54 819 648 |
| Cash flows from investing activities | | | |
| Purchase of property, plant and equipment | 3 | (49 110 928) | (29 065 757) |
| Proceeds on disposal of capital assets | 3 | 910 001 | 232 090 |
| Purchase of other intangible assets | 4 | - | (2 019 605) |
| Net cash flows from investing activities | | (48 200 927) | (30 853 272) |
| Cash flows from financing activities | | | |
| Repayment of borrowings | | (7 149 071) | (5 302 054) |
| Proceeds on borrowings | | - | 3 452 000 |
| Net cash flows from financing activities | | (7 149 071) | (1 850 054) |
| Net increase/(decrease) in cash and cash equivalents | | (25 623 280) | 22 116 322 |
| Cash and cash equivalents at the beginning of the year | | 29 283 087 | 7 166 588 |
| Cash and cash equivalents at the end of the year | 11 | 3 659 807 | 29 282 910 |

* See Note 43

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Figures in Rand

Statement of Financial Performance

Revenue

Revenue from exchange transactions

| | | | | | |
|---|-------------------|------------------|-------------------|-------------------|--------------------|
| Service charges | 56 774 756 | (185 053) | 56 589 703 | 59 483 117 | 2 893 414 |
| Rental of facilities and equipment | 603 473 | - | 603 473 | 631 412 | 27 939 |
| Interest received (trading) | 12 058 739 | 2 000 000 | 14 058 739 | 19 991 687 | 5 932 948 |
| Agency services | 868 204 | 381 389 | 1 249 593 | - | (1 249 593) |
| Licences and permits | 1 866 840 | - | 1 866 840 | 1 366 261 | (500 579) |
| Operational revenue | 2 726 866 | 364 876 | 3 091 742 | 1 918 493 | (1 173 249) |
| Interest received - investment | 1 469 310 | - | 1 469 310 | 1 805 117 | 335 807 |
| Gains on disposal of assets | - | 203 467 | 203 467 | - | (203 467) |
| Total revenue from exchange transactions | 76 368 188 | 2 764 679 | 79 132 867 | 85 196 087 | 6 063 220 |

Revenue from non-exchange transactions

Taxation revenue

| | | | | | |
|----------------|------------|-------------|-------------------|------------|---------------------|
| Property rates | 68 894 815 | (3 283 522) | 65 611 293 | 44 039 999 | (21 571 294) |
|----------------|------------|-------------|-------------------|------------|---------------------|

Transfer revenue

| | | | | | |
|-------------------------------|-------------|------------|--------------------|-------------|----------------|
| Government grants & subsidies | 182 875 000 | 38 783 321 | 221 658 321 | 221 748 268 | 89 947 |
| Fines, Penalties and Forfeits | 1 840 091 | 913 192 | 2 753 283 | 3 309 350 | 556 067 |

| | | | | | |
|---|--------------------|-------------------|--------------------|--------------------|---------------------|
| Total revenue from non-exchange transactions | 253 609 906 | 36 412 991 | 290 022 897 | 269 097 617 | (20 925 280) |
|---|--------------------|-------------------|--------------------|--------------------|---------------------|

| | | | | | |
|--|------------|-----------|-------------------|------------|------------------|
| 'Total revenue from exchange transactions' | 76 368 188 | 2 764 679 | 79 132 867 | 85 196 087 | 6 063 220 |
|--|------------|-----------|-------------------|------------|------------------|

| | | | | | |
|--|-------------|------------|--------------------|-------------|---------------------|
| 'Total revenue from non-exchange transactions' | 253 609 906 | 36 412 991 | 290 022 897 | 269 097 617 | (20 925 280) |
|--|-------------|------------|--------------------|-------------|---------------------|

| | | | | | |
|----------------------|--------------------|-------------------|--------------------|--------------------|---------------------|
| Total revenue | 329 978 094 | 39 177 670 | 369 155 764 | 354 293 704 | (14 862 060) |
|----------------------|--------------------|-------------------|--------------------|--------------------|---------------------|

Expenditure

| | | | | | |
|-------------------------------|--------------|--------------|----------------------|---------------|---------------------|
| Employee related costs | (99 743 976) | (446 950) | (100 190 926) | (103 645 200) | (3 454 274) |
| Remuneration of councillors | (10 461 916) | - | (10 461 916) | (9 742 384) | 719 532 |
| Depreciation and amortisation | (14 400 100) | (11 856 284) | (26 256 384) | (25 304 911) | 951 473 |
| Finance charges | (2 080 268) | 1 562 334 | (517 934) | (1 571 391) | (1 053 457) |
| Debt Impairment | (29 559 250) | 11 000 000 | (18 559 250) | (32 653 411) | (14 094 161) |
| Bulk purchases | (35 614 390) | - | (35 614 390) | (34 080 640) | 1 533 750 |
| Transfers and subsidies | (3 034 550) | 249 906 | (2 784 644) | (2 351 870) | 432 774 |
| Loss on disposal of assets | - | (203 467) | (203 467) | (723 338) | (519 871) |
| General Expenses | (87 238 290) | (7 561 895) | (94 800 185) | (96 865 174) | (2 064 989) |

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual
Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual |
|--|----------------------|--------------------|----------------------|--|---|
| Figures in Rand | | | | | |
| Total expenditure | (282 132 740) | (7 256 356) | (289 389 096) | (306 938 319) | (17 549 223) |
| | 329 978 094 | 39 177 670 | 369 155 764 | 354 293 704 | (14 862 060) |
| | (282 132 740) | (7 256 356) | (289 389 096) | (306 938 319) | (17 549 223) |
| Operating surplus | 47 845 354 | 31 921 314 | 79 766 668 | 47 355 385 | (32 411 283) |
| Fair value adjustments | - | - | - | 1 430 000 | 1 430 000 |
| Actuarial gains/losses | - | - | - | (1 135 324) | (1 135 324) |
| <hr/> | | | | | |
| | - | - | - | | |
| Surplus before taxation | 47 845 354 | 31 921 314 | 79 766 668 | 47 650 061 | (32 116 607) |
| Taxation | - | - | - | - | - |
| Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement | 47 845 354 | 31 921 314 | 79 766 668 | 47 650 061 | (32 116 607) |
| <hr/> | | | | | |
| <hr/> | | | | | |

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Figures in Rand

Statement of Financial Position

Assets

Current Assets

| | | | | | |
|--|--------------------|---------------------|---------------------|-------------------|---------------------|
| Statutory Receivables from non-exchange transactions | 92 157 205 | (3 817 633) | 88 339 572 | 4 743 771 | (83 595 801) |
| VAT receivable | 1 651 423 | 11 405 718 | 13 057 141 | - | (13 057 141) |
| Receivables from exchange transactions | 12 735 772 | (527 582) | 12 208 190 | 22 936 612 | 10 728 422 |
| Cash and cash equivalents | 15 041 888 | (43 775 590) | (28 733 702) | 3 659 807 | 32 393 509 |
| | 121 586 288 | (36 715 087) | 84 871 201 | 31 340 190 | (53 531 011) |

Non-Current Assets

| | | | | | |
|-------------------------------|--------------------|----------------------|--------------------|--------------------|---------------------|
| Investment property | 124 487 019 | (53 897 019) | 70 590 000 | 61 270 000 | (9 320 000) |
| Property, plant and equipment | 438 335 912 | (75 544 311) | 362 791 601 | 351 714 118 | (11 077 483) |
| Intangible assets | 1 876 257 | 556 816 | 2 433 073 | 1 823 904 | (609 169) |
| Heritage assets | 70 945 | - | 70 945 | 70 945 | - |
| | 564 770 133 | (128 884 514) | 435 885 619 | 414 878 967 | (21 006 652) |

| | | | | | |
|---------------------|--------------------|----------------------|--------------------|--------------------|---------------------|
| Current Assets | 121 586 288 | (36 715 087) | 84 871 201 | 31 340 190 | (53 531 011) |
| Non-Current Assets | 564 770 133 | (128 884 514) | 435 885 619 | 414 878 967 | (21 006 652) |
| Total Assets | 686 356 421 | (165 599 601) | 520 756 820 | 446 219 157 | (74 537 663) |

Liabilities

Current Liabilities

| | | | | | |
|---|-------------------|---------------------|-------------------|-------------------|---------------------|
| Finance lease obligation | 2 143 586 | (305 970) | 1 837 616 | 1 086 772 | (750 844) |
| Payables from exchange transactions | 88 617 934 | (41 906 815) | 46 711 119 | 32 816 009 | (13 895 110) |
| VAT payable | - | - | - | 1 442 372 | 1 442 372 |
| Consumer deposits | - | 1 995 512 | 1 995 512 | 2 736 960 | 741 448 |
| Unspent conditional grants and receipts | - | - | - | 503 417 | 503 417 |
| Provision for bonuses | 879 882 | (125 592) | 754 290 | 633 703 | (120 587) |
| Long term loans-current portion | 4 000 000 | (570 950) | 3 429 050 | 1 148 647 | (2 280 403) |
| | 95 641 402 | (40 913 815) | 54 727 587 | 40 367 880 | (14 359 707) |

Non-Current Liabilities

| | | | | | |
|------------------------------------|-------------------|------------------|-------------------|-------------------|---------------------|
| Other financial liabilities | 341 542 | - | 341 542 | 341 542 | - |
| Finance lease obligation | 2 827 212 | - | 2 827 212 | - | (2 827 212) |
| Employee benefit obligation | 2 687 312 | (503 352) | 2 183 960 | 2 090 107 | (93 853) |
| Provision for bonuses | 7 000 000 | (755 028) | 6 244 972 | 9 868 852 | 3 623 880 |
| Long- service awards | - | - | - | 1 633 076 | 1 633 076 |
| Long term loans- long term portion | 3 837 912 | 9 290 359 | 13 128 271 | 1 235 113 | (11 893 158) |
| | 16 693 978 | 8 031 979 | 24 725 957 | 15 168 690 | (9 557 267) |
| | 95 641 402 | (40 913 815) | 54 727 587 | 40 367 880 | (14 359 707) |

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual
Basis

| | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual |
|--------------------------|--------------------|----------------------|---------------------|--|---|
| Figures in Rand | | | | | |
| | 16 693 978 | 8 031 979 | 24 725 957 | 15 168 690 | (9 557 267) |
| | - | - | - | - | - |
| Total Liabilities | 112 335 380 | (32 881 836) | 79 453 544 | 55 536 570 | (23 916 974) |
| Assets | 686 356 421 | (165 599 601) | 520 756 820 | 446 219 157 | (74 537 663) |
| Liabilities | (112 335 380) | 32 881 836 | (79 453 544) | (55 536 570) | 23 916 974 |
| Net Assets | 574 021 041 | (132 717 765) | 441 303 276 | 390 682 587 | (50 620 689) |

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

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

Figures in Rand

Cash Flow Statement

Cash flows from operating activities

Receipts

| | | | | | |
|----------------------------|--------------------|---------------------|--------------------|--------------------|--------------------|
| Sale of goods and services | 98 673 999 | - | 98 673 999 | 90 439 737 | (8 234 262) |
| Grants | 265 996 208 | (53 916 208) | 212 080 000 | 270 102 020 | 58 022 020 |
| Interest income | 1 469 310 | - | 1 469 310 | 1 805 117 | 335 807 |
| Other receipts | 7 037 270 | (839 906) | 6 197 364 | - | (6 197 364) |
| | 373 176 787 | (54 756 114) | 318 420 673 | 362 346 874 | 43 926 201 |

Payments

| | | | | | |
|-----------------------------|----------------------|-------------------|----------------------|----------------------|----------------------|
| Employee costs | (99 743 976) | (446 950) | (100 190 926) | (104 068 144) | (3 877 218) |
| Suppliers | (125 887 230) | 9 477 935 | (116 409 295) | (217 988 271) | (101 578 976) |
| Finance costs | (2 080 268) | 1 562 334 | (517 934) | (821 357) | (303 423) |
| Remuneration of Councillors | (10 461 916) | - | (10 461 916) | (9 742 384) | 719 532 |
| | (238 173 390) | 10 593 319 | (227 580 071) | (332 620 156) | (105 040 085) |

| | | | | | |
|---|--------------------|---------------------|----------------------|-------------------|----------------------|
| Total receipts | 373 176 787 | (54 756 114) | 318 420 673 | 362 346 874 | 43 926 201 |
| Total payments | (238 173 390) | 10 593 319 | (227 580 071) | (332 620 156) | (105 040 085) |
| Net cash flows from operating activities | 135 003 397 | (44 162 795) | 90 840 602 | 29 726 718 | (61 113 884) |

Cash flows from investing activities

| | | | | | |
|---|---------------------|---------------------|---------------------|---------------------|-------------------|
| Purchase of property, plant and equipment | (41 911 748) | (27 184 611) | (69 096 359) | (49 110 928) | 19 985 431 |
| Proceeds on disposal of capital assets | - | - | - | 910 001 | 910 001 |
| Net cash flows from investing activities | (41 911 748) | (27 184 611) | (69 096 359) | (48 200 927) | 20 895 432 |

Cash flows from financing activities

| | | | | | |
|---|--------------------|--------------------|---------------------|--------------------|--------------------|
| Repayment of borrowings | (8 145 945) | (2 025 650) | (10 171 595) | (7 148 871) | 3 022 724 |
| Proceeds from borrowings | 4 800 000 | (1 100 000) | 3 700 000 | - | (3 700 000) |
| Net cash flows from financing activities | (3 345 945) | (3 125 650) | (6 471 595) | (7 148 871) | (677 276) |

| | | | | | |
|---|--------------------|----------------------|-------------------|------------------|---------------------|
| Net increase/(decrease) in cash and cash equivalents | 172 866 912 | (157 594 264) | 15 272 648 | (25 623 280) | (40 895 728) |
| Cash and cash equivalents at the beginning of the year | 4 232 182 | - | 4 232 182 | 29 283 087 | 25 050 905 |
| Cash and cash equivalents at the end of the year | 177 099 094 | (157 594 264) | 19 504 830 | 3 659 807 | (15 844 823) |

Reconciliation

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1. Presentation of Annual Financial Statements

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

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

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

The municipality changes an accounting policy only if the change:

- (a) Is required by a standard of GRAP or
- (b) Results in the financial statements providing reliable and more relevant information about the effects of transaction, other events or conditions on the performance or cash flow.

The following GRAP standards have been approved and effective to the municipality:

- GRAP 1 Presentation of Financial Statements
- GRAP 2 Cash Flow Statements
- GRAP 3 Accounting Policies , Changes in Accounting Estimates and Errors
- GRAP 4 The effects of Changes in Foreign Exchange Rates
- GRAP 5 Borrowing Costs
- GRAP 6 Consolidated and Separate Financial Statements
- GRAP 7 Investments in Associates
- GRAP 8 Interest in Joint Ventures
- GRAP 9 Revenue from Exchange Transactions
- GRAP 10 Financial Reporting in Hyperinflationary Economies
- GRAP 11 Construction Contracts
- GRAP 12 Inventories
- GRAP 13 Leases
- GRAP 14 Events After Reporting Date
- GRAP 16 Investment Property
- GRAP 17 Property Plant and Equipment
- GRAP 18 Segment Reporting
- GRAP 19 Provisions , Contingent Liabilities and Contingent Assets
- GRAP 20 Related Party Disclosures
- GRAP 21 Impairment of Non - Cash generating Assets
- GRAP 23 Revenue from Non- Exchange Transactions (Taxes and Transfers)
- GRAP 24 Presentation of Budget Information in Financial Statements
- GRAP 25 Employee Benefits
- GRAP 26 Impairment of Cash- Generating Assets
- GRAP 27 Agriculture
- GRAP 31 Intangible Assets
- GRAP 32 Service Concession Arrangements: Grantor
- GRAP 34 Separate Financial Statements
- GRAP 35 Consolidated Financial Statements
- GRAP 36 Investments in Associates and Joint Ventures
- GRAP 37 Joint Arrangements
- GRAP 38 Disclosure of Interest in Other Entities
- GRAP 100 Discounted Operations
- GRAP 103 Heritage Assets
- GRAP 104 Financial Instruments
- GRAP 105 Transfer of Functions Between Entities Under Common Control
- GRAP 106 Transfer of Functions Between Entities Not Under Common Control
- GRAP 107 Mergers
- GRAP 108 Statutory Receivables
- GRAP 109 Accounting by Principals and Agents
- GRAP 110 Living and Non-Living Resources

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE.

The following GRAP standards have been issued but are not yet effective and have not been adopted early by the municipality:

GRAP 25 Employee Benefits (amendments)
GRAP 104 Financial Instruments (amendments)
Guideline Accounting for landfill sites
Guideline The application of materiality to financial statement

Impact on the municipality's financial statements once implemented:

None of these standards and interpretations are anticipated to have a material impact on the municipality's financial statements.

Management has considered all of the foregoing GRAP standards issued but not yet effective and effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

These accounting policies are consistent with the previous period.

1.1 Presentation currency

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

1.2 Going concern assumption

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

1.3 Expenditure

Expenditure is recognised on an accrual basis.

1.4 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 presented on 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:

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.4 Significant judgements and sources of estimation uncertainty (continued)

Financial instruments held at amortised cost and at cost

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

Impairment testing

Financial assets:

As described in the accounting policy disclosure relating to financial instruments, the municipality considers the detailed impairment criteria as set out in GRAP 104: Financial Instruments. Management of the municipality is satisfied that the impairment of financial assets recorded during the year is appropriate.

Useful lives and impairment of Property, Plant and Equipment (PPE) and Intangible assets with indefinite useful lives:

As described in the accounting policy disclosure relating to PPE and intangible assets with indefinite useful lives, the municipality depreciates/amortises the aforementioned assets over their estimated useful lives, taking into account the residual values of the assets at the end of their useful lives. The useful lives and residual values of the assets are based on industry knowledge.

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.

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 15: 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 financial year. This interest rate should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations.

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

1.5 Investment property

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

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

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

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

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

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

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.5 Investment property (continued)

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

Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or services 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.

1.6 Property, plant and equipment

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

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

Major inspection costs which are conditions of continuing use of an item of property, plant and equipment and which meet the recognition criteria mentioned 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 impairment loss if any.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.6 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.

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

| Item | Depreciation method | Average useful life |
|---------------------------------------|---------------------|---------------------|
| Land | | Indefinite |
| Landfill sites | Straight-line | 20-25 years |
| Buildings | | |
| • Parkhomes | Straight-line | 5-10 years |
| • Residential | Straight-line | 10-33 years |
| • Ablutions | Straight-line | 25-50 years |
| • Car ports | Straight-line | 15-30 years |
| • Community halls | Straight-line | 25-50 years |
| • Testing center | Straight-line | 25-50 years |
| • Libraries | Straight-line | 25-50 years |
| • Sports fields | Straight-line | 25-50 years |
| • Creches | Straight-line | 24-50 years |
| • Store rooms | Straight-line | 25-30 years |
| Electricity | | |
| • Cables | Straight-line | 25-45 years |
| • Panels | Straight-line | 3-14 years |
| • Fencing | Straight-line | 10-25 years |
| • High mast lights | Straight-line | 15-25 years |
| • Overheads lines | Straight-line | 20-30 years |
| • Meters | Straight-line | 20-30 years |
| • Substation equipment indoors | Straight-line | 30-40 years |
| • Substation equipment outdoors | Straight-line | 20-30 years |
| • Switchgears | Straight-line | 20-30 years |
| • Substations | Straight-line | 20-20 years |
| • Transformers | Straight-line | 25-50 years |
| Roads | | |
| • Traffic calming | Straight-line | 10-30 years |
| • Roads barriers | Straight-line | 10-30 years |
| • Kerb & channels | Straight-line | 40-50 years |
| • Roads asphalt basis | Straight-line | 30-50 years |
| • Roads asphalt surfaces | Straight-line | 10-22 years |
| • Roads grave surface | Straight-line | 3-25 years |
| • Pedestrial footpaths | Straight-line | 13-30 years |
| • Roads streetlighting | Straight-line | 25-40 years |
| • Traffic lights | Straight-line | 15-20 years |
| • Traffic signs | Straight-line | 5-15 years |
| • Culverts | Straight-line | 25-40 years |
| • Drains concrete | Straight-line | 25-50 years |
| • Roads | Straight-line | 10-20 years |
| Furniture and fittings | | |
| • Airconditioners | Straight-line | 3-30 years |
| • Office equipment | Straight-line | 5-30 years |
| • Other furnitures | Straight-line | 5-30 years |
| • Paintings, sculptures and ornaments | Straight-line | 5-10 years |
| Transport assets | | |
| • Motor vehicles | Straight-line | 4-30 years |
| • Trailers and accessories | Straight-line | 5-30 years |
| • Trucks | Straight-line | 5-30 years |

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.6 Property, plant and equipment (continued)

| | | |
|--|---------------|-------------|
| Other machinery and equipment | | |
| • Audio visual equipment | Straight-line | 5-30 years |
| • Domestic equipment | Straight-line | 3-30 years |
| • Electric wire and power distribution | Straight-line | 3-12 years |
| • Farm or agricultural equipment | Straight-line | 5-33 years |
| • Gardening equipment | Straight-line | 2-33 years |
| • Irrigation equipment | Straight-line | 10-15 years |
| • Kitchen appliances | Straight-line | 5-25 years |
| • Medical and allied equipment | Straight-line | 5-25 years |
| • Photographic equipment | Straight-line | 5-10 years |
| • Radio equipment | Straight-line | 5-25 years |
| • Roads equipment | Straight-line | 10-30 years |
| • Security equipment | Straight-line | 3-30 years |
| • Survey equipment | Straight-line | 5-30 years |
| • Telecommunication equipment | Straight-line | 3-12 years |
| • Tens, flags and accessories | Straight-line | 5-11 years |
| • Workshop equipment | Straight-line | 5-30 years |
| Computer equipment | | |
| • Computer hardware | Straight-line | 4-25 years |
| • Computer network | Straight-line | 5-10 years |
| Solid waste disposal | | |
| • Bins containers | Straight-line | 10-15 years |

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 revised to accommodate 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 on 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.

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.

1.7 Site restoration and dismantling cost

Where 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:

- subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- 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 such 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.

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.8 Intangible assets

An asset is identifiable if it either:

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

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.

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

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

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

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

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

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

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

Internally generated goodwill is not recognised as an intangible asset.

Amortisation is provided to write down the intangible assets, on a straight-line basis, to their residual values as follows:

| Item | Depreciation method | Average useful life |
|-------------------|----------------------------|----------------------------|
| Licences | Straight-line | 2-30 years |
| Computer software | Straight-line | 2-30 years |

Intangible assets are derecognised:

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

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

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.9 Heritage assets

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

Recognition

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

Initial measurement

Heritage assets are measured at cost.

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

Subsequent measurement

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

Impairment

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

Derecognition

The municipality derecognises heritage assets on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of a heritage assets is included in surplus or deficit when the item is derecognised (unless the Standard of GRAP on leases requires otherwise on a sale and leaseback).

1.10 Financial instruments

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

A financial asset is:

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

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

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

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 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 |
| Cash and cash equivalents | Financial asset measured at cost |
| Statutory receivables from non exchange transactions | Financial asset measured at amortised cost |

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

| Class | Category |
|---|--|
| Long-term loans | Financial liability measured at amortised cost |
| Trade and other payables from exchange transactions | Financial liability measured at amortised cost |
| Consumer deposits | Financial liability measured at cost |

Initial recognition

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

Initial measurement of financial assets and financial liabilities

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

Subsequent measurement of financial assets and financial liabilities

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

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

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

Fair value measurement considerations

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

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

Gains and losses

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 Financial instruments (continued)

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

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

Impairment and uncollectibility of financial assets

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

Financial assets measured at amortised cost

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

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

Financial assets measured at cost

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

Derecognition

Financial assets

The municipality derecognises a financial asset only when:

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

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

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

uPHONGOLO Local Municipality

Annual Financial Statements for the year ended 30 June 2021

Accounting Policies

1.10 Financial instruments (continued)

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 continues to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the municipality recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

Financial liabilities

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

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

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

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.

1.11 Statutory receivables from non exchange transactions

Identification

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

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

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1.11 Statutory receivables from non exchange transactions (continued)

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

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

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

Recognition

The municipality recognises statutory receivables as follows:

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

Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

Subsequent measurement

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

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

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.

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1.11 Statutory receivables from non exchange transactions (continued)

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

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

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

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

Derecognition

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

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

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

1.12 Tax

The uPhongolo Local municipality is exempt from tax in terms of section 10(1)(a) of the Income Tax Act.

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 - lessor

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

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

Finance leases - lessee

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1.13 Leases (continued)

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.

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.

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 .

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.

1.14 Impairment of cash and non-cash-generating assets

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

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

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

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

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

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

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

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

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.

Designation

Assets are designated as cash-generating or non-cash-generating based on the municipality's objective of using the assets. Assets can either be used with the objective of generating a commercial return or delivering services.

The assessment of a municipality's objective of using the asset is performed at initial recognition, based on management's expected use of the asset over its useful life. Subsequent to initial recognition and designation, a municipality shall redesignate an asset, if there has been a change in a municipality's expected use of the asset that is expected to result in positive cash flows that are significantly higher than the cost of the asset.

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1.14 Impairment of cash and non-cash-generating assets (continued)

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 of impairment on a non-cash-generating asset. 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.

1.15 Employee benefits

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

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

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

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

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

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

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

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

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

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

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

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

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The municipality 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 recognise the expected cost of bonus, incentive and performance related payments when the municipality has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

Post-employment benefits

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

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

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

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Accounting Policies

1.15 Employee benefits (continued)

Defined contribution plans

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

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

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

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

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.

Retirement Funds

The municipality contributes towards retirement benefits of its employees to the following funds:

The Natal Joint Municipal Pension Fund;
Government Employees Pension Fund;
Municipal Gratuity Fund;
Municipal Employee Pension Fund.

Post employment medical care benefit.

The municipality provides post-retirement medical care benefits by subsidising the medical aid contributions to retired employees and their legitimate spouses. The entitlement of post-medical benefits is based on employees remaining in service up to the retirement age and the completion of a minimum service period. The expected cost of these benefits is accrued over the period of employment. Post employment medical care benefits are accounted for in accordance to GRAP 25.

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1.16 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.

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

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
 - the activity/operating unit or part of an activity/operating unit concerned;
 - the principal locations affected;
 - the location, function, and approximate number of employees who will be compensated for services being terminated;
 - the expenditures that will be undertaken; and
 - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

1.17 Commitments

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

Disclosures are required in respect of unrecognised contractual commitments.

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.

Operational commitment represent both goods and services where an order or an appointment letter has been approved and issued to the supplier at the reporting period.

1.18 Revenue from exchange transactions

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

uPHONGOLO Local Municipality

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1.18 Revenue from exchange transactions (continued)

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

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

Measurement

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

Sale of goods

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

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

Rendering of services

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

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

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

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

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

Interest

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

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

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

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

1.19 Receivables 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.

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1.19 Receivables from non-exchange transactions (continued)

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

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

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

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

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

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

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

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

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

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

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

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

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1.19 Receivables from non-exchange transactions (continued)

Property rates

The municipality recognises property rates in terms of the Municipal Property Rates Act and the municipal rates policy.

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met. The taxable event for property tax is the passing of the date on which the tax is levied.

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.

Government grants

Grants and donations received, or receivable are recognised when the resources that have been transferred meet the criteria for recognition as an asset and there is no corresponding liability in respect of the related conditions. Where there are conditions attached to a grant, transfer or donation that gave rise to a liability at initial recognition, the liability is transferred to revenue as and when the conditions attached to the grant are met.

Unconditional grants are recognised as revenue in full when the asset is recognised, at an amount equal to their fair value of the asset received.

Fines

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

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

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

1.20 Investment income

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

1.21 Borrowing costs

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

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

1.22 Unauthorised expenditure

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No.56 of 2003)

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.

1.23 Fruitless and wasteful expenditure

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

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1.23 Fruitless and wasteful expenditure (continued)

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.

1.24 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 economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

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

1.25 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.

The municipality does not report to management or council on segments and does not maintain separate information about segments. As a result, a segment reporting is not included in these annual financial statements.

1.26 Budget information

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

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

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.

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Accounting Policies

1.27 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities under the control of Council are considered to be related parties.

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

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

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

1.28 Events after reporting date

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

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

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

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

1.29 Value Added Tax

Recognition of asset and liability

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

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2. Investment property

| | 2021 | | | 2020 | | |
|---------------------|------------------|---|----------------|------------------|---|----------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 61 270 000 | - | 61 270 000 | 59 840 000 | - | 59 840 000 |

Reconciliation of investment property - 2021

| | Opening balance | Fair value adjustments | Total |
|---------------------|-----------------|------------------------|------------|
| Investment property | 59 840 000 | 1 430 000 | 61 270 000 |

Reconciliation of investment property - 2020

| | Opening balance | Fair value adjustments | Total |
|---------------------|-----------------|------------------------|------------|
| Investment property | 59 431 000 | 409 000 | 59 840 000 |

Pledged as security

No investment properties were pledged as security.

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.

The effective date of the revaluations was 30 June 2021. Revaluations were performed by an independent valuer, Mr WF Hamilton, of BPG Mass Appraisals (Pty)ltd. BPG Mass Appraisals are not connected to the municipality and have relevant experience in location and category of the investment property being valued.

The valuation was based on open market value for existing use.

These assumptions are based on current market conditions..

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3. Property, plant and equipment

| | 2021 | | | 2020 | | |
|----------------|---------------------|---|--------------------|---------------------|---|--------------------|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 71 302 265 | - | 71 302 265 | 71 302 265 | - | 71 302 265 |
| Buildings | 141 374 011 | (31 732 508) | 109 641 503 | 122 900 829 | (27 468 060) | 95 432 769 |
| Infrastructure | 220 680 863 | (84 819 446) | 135 861 417 | 201 947 466 | (68 149 887) | 133 797 579 |
| Solid waste | 9 469 020 | (383 440) | 9 085 580 | 7 054 523 | (266 384) | 6 788 139 |
| Other PPE | 50 297 275 | (24 473 922) | 25 823 353 | 40 026 264 | (20 629 244) | 19 397 020 |
| Total | 493 123 434 | (141 409 316) | 351 714 118 | 443 231 347 | (116 513 575) | 326 717 772 |

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3. Property, plant and equipment (continued)

Reconciliation of property, plant and equipment - 2021

| | Opening balance | Additions | Disposals | Depreciation | Impairment loss | Total |
|-------------------------------------|--------------------|-------------------|--------------------|---------------------|--------------------|--------------------|
| Land | 71 302 265 | - | - | - | - | 71 302 265 |
| Buildings | 95 432 769 | 18 473 182 | - | (3 793 471) | (470 977) | 109 641 503 |
| Infrastructure | 133 797 579 | 18 733 397 | - | (16 606 001) | (63 558) | 135 861 417 |
| Solid Waste | 6 788 139 | 2 414 497 | - | (117 056) | - | 9 085 580 |
| Other Property, Plant and Equipment | 19 397 020 | 11 904 349 | (1 633 339) | (3 831 371) | (13 306) | 25 823 353 |
| | 326 717 772 | 51 525 425 | (1 633 339) | (24 347 899) | (547 841) | 351 714 118 |

Reconciliation of property, plant and equipment - 2020

| | Opening balance | Additions | Disposals | Depreciation | Impairment loss | Total |
|----------------|--------------------|-------------------|------------------|---------------------|--------------------|--------------------|
| Land | 71 302 265 | - | - | - | - | 71 302 265 |
| Buildings | 80 321 083 | 18 061 843 | - | (2 950 157) | - | 95 432 769 |
| Infrastructure | 144 353 784 | 5 922 850 | - | (16 394 366) | (84 689) | 133 797 579 |
| Solid waste | 5 505 095 | 1 549 428 | - | (266 384) | - | 6 788 139 |
| Other PPE | 19 190 427 | 3 531 636 | (107 502) | (3 282 242) | 64 701 | 19 397 020 |
| | 320 672 654 | 29 065 757 | (107 502) | (22 893 149) | (19 988) | 326 717 772 |

Reconciliation of Work-in-Progress 2021

| | Included within Infrastructure | Included within Community | Total |
|--------------------------------|-----------------------------------|------------------------------|-------------------|
| Opening balance | 8 801 296 | 17 167 056 | 25 968 352 |
| Additions/capital expenditure | 18 733 354 | 18 461 834 | 37 195 188 |
| Impairment | - | (275 675) | (275 675) |
| Transferred to completed items | - | (10 248 160) | (10 248 160) |
| | 27 534 650 | 25 105 055 | 52 639 705 |

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3. Property, plant and equipment (continued)

Reconciliation of Work-in-Progress 2020

| | Included within Infrastructure | Included within Community | Total |
|--------------------------------|-----------------------------------|------------------------------|-------------------|
| Opening balance | 9 534 209 | 26 425 394 | 35 959 603 |
| Additions/capital expenditure | 5 922 851 | 18 061 843 | 23 984 694 |
| Transferred to completed items | (6 655 764) | (27 320 181) | (33 975 945) |
| | 8 801 296 | 17 167 056 | 25 968 352 |

Other materials

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

| | | |
|----------------|-------------------|------------------|
| Buildings | 429 908 | 1 035 110 |
| Other | 3 120 116 | 851 851 |
| Infrastructure | 20 763 916 | 7 632 583 |
| | 24 313 940 | 9 519 544 |

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.

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4. Intangible assets

| | 2021 | | | 2020 | | |
|-------------------|---------------------|---|----------------|---------------------|---|----------------|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 3 061 310 | (1 237 406) | 1 823 904 | 3 061 310 | (828 236) | 2 233 074 |

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4. Intangible assets (continued)

Reconciliation of intangible assets - 2021

| | Opening balance | Amortisation | Total |
|-------------------|--------------------|--------------|-----------|
| Computer software | 2 233 073 | (409 169) | 1 823 904 |

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4. Intangible assets (continued)

Reconciliation of intangible assets - 2020

| | Opening balance | Additions | Amortisation | Impairment loss | Total |
|-------------------|-----------------|-----------|--------------|-----------------|-----------|
| Computer software | 453 077 | 2 019 605 | (227 414) | (12 195) | 2 233 073 |

5. Heritage assets

| | 2021 | | | 2020 | | |
|-----------------------|------------------|-------------------------------|----------------|------------------|-------------------------------|----------------|
| | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Other Heritage Assets | 46 949 | - | 46 949 | 46 949 | - | 46 949 |
| Works of art | 23 996 | - | 23 996 | 23 996 | - | 23 996 |
| Total | 70 945 | - | 70 945 | 70 945 | - | 70 945 |

Reconciliation of heritage assets 2021

| | Opening balance | Total |
|-----------------------|-----------------|---------------|
| Other Heritage Assets | 46 949 | 46 949 |
| Works of art | 23 996 | 23 996 |
| | 70 945 | 70 945 |

Reconciliation of heritage assets 2020

| | Opening balance | Total |
|-----------------------|-----------------|---------------|
| Other Heritage Assets | 46 949 | 46 949 |
| Works of art | 23 996 | 23 996 |
| | 70 945 | 70 945 |

Pledged as security

No heritage assets pledged as security.

6. Employee benefit obligation

Defined benefit plan

Medical Benefits:

An actuarial valuation has been performed by One Pangaea Expertise & Solutions to ascertain the municipality's liability in respect of the benefits to eligible employees.

The actuarial valuation is performed every year.

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

| Carrying value | | |
|-----------------------|--------------------|--------------------|
| Opening balance | (1 972 225) | (2 120 383) |
| Interest costs | (174 534) | (215 258) |
| Benefits paid | 262 389 | 209 725 |
| Actuarial gain/(loss) | (205 736) | 153 691 |
| | (2 090 106) | (1 972 225) |

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6. Employee benefit obligation (continued)

Net expense recognised in the statement of financial performance

| | | |
|--------------------------|---------------|-----------------|
| Interest cost | (174 534) | (215 258) |
| Actuarial gains (losses) | 205 736 | 153 691 |
| | 31 202 | (61 567) |

Key assumptions used

Assumptions used at the reporting date:

| | | |
|----------------------------------|--------|--------|
| Discount rates used | 8.65 % | 9.40 % |
| Salary inflation | 8.47 % | 6.23 % |
| 1% increase in medical inflation | 8.16 % | 7.92 % |
| 1% decrease in medical inflation | 7.24 % | 7.04 % |
| 1% increase in discount rate | 6.63 % | 6.34 % |
| 1% decrease in discount rate | 7.58 % | 7.22 % |
| Mortality less 2 years | 9.55 % | 8.60 % |

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6. Employee benefit obligation (continued)

Other assumptions

The municipality has been unsuccessful in obtaining the necessary information to support proper defined plan accounting due to restrictions imposed by the multi-employer plan. As a result of the restrictions, some of the entities defined benefit plans have not been treated as defined benefit plans as defined by GRAP 25, but are rather accounted for as defined contributions plans. This is in line with the GRAP 25 exemption which states that where information required for proper defined benefit plan accounting is not available in respect of multi employer state plans, these should be accounted for as defined contributions plan.

Pension benefits

The municipality's personnel are members of one of the pension funds listed below:

- Kwa-Zulu Natal Joint Municipal Pension Fund
- Municipal Gratuity Fund
- Municipal Employees Pension Fund
- Government Employees Pension Fund

As the aforementioned funds are multi-employer funds, the allocation of any surplus/deficit to individual municipalities cannot be determined. Furthermore, disclosure of further details such as actuarial assumptions cannot be attributed to any specific municipality and is of no relevance to users of the municipality's financial statements. As the required disclosure information cannot be obtained, the funds are all treated as defined contribution plans, an independent valuer carries out a statutory valuation of the NJMPF on a triennial basis and interim valuation on an annual basis.

Superannuation Fund: The interim valuation carried out on the Superannuation Fund as at March 2016 reflected the following:

- The memorandum account in respect of the pensioners was fully funded
- The ability in respect of active members was 100% funded.

Retirement and Provident Fund: The latest statutory valuation on the Retirement/Provident Fund (defined contribution) as at 30 June 2021 revealed the following: The memorandum account in respect of the pensioners was fully funded.

- The ability in respect of active members was 100% funded:

| | One percenta ge point increase | One percenta ge point decrease |
|----------------------------------|---|---|
| Principal actuarial assumptions: | - | - |
| 1% increase in discount rate | - | - |
| -Defined benefit obligation | 1 951 563 | 1 847 157 |
| -Percentage | 6.63% | 6.34% |
| 1% decrease in discount rate | - | - |
| -Defined benefit obligation | 2 248 614 | 2 114 728 |
| -Percentage | 7.58% | 7.22% |
| 1% decrease in salary inflation | - | - |
| -Defined benefit obligation | 1 938 747 | 1 833 344 |
| -Percentage | 7.24% | 7.04% |
| 1% increase in salary inflation | - | - |
| -Defined benefit obligation | 2 260 754 | 2 128 407 |
| -Percentage | 8.16% | 7.92% |

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

| | 2021 | 2020 | 2019 | 2018 | 2017 |
|-------------------------------------|-----------|-----------|-----------|-----------|-----------|
| Present value of funded obligations | 2 090 106 | 1 972 225 | 2 120 383 | 3 187 919 | 3 115 366 |
| Total | 2 090 106 | 1 972 225 | 2 120 383 | 3 187 919 | 3 115 366 |

7. Other current assets

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7. Other current assets (continued)

| | | |
|-------------|--|---------|
| Prepayments | | 209 968 |
|-------------|--|---------|

8. Statutory receivables from non-exchange transactions

| | | |
|----------------|------------------|------------------|
| Fines | 10 481 991 | 7 724 853 |
| Property rates | 110 625 761 | 91 783 728 |
| Impairment | (116 363 981) | (95 509 508) |
| | 4 743 771 | 3 999 073 |

Statutory receivables from non-exchange transactions age analysis

Property rates: Ageing

| | | |
|---------------------|--------------------|-------------------|
| Current (0-30 days) | 10 521 592 | 3 098 199 |
| 31-60 days | 2 638 112 | 2 019 263 |
| 61-90 days | 2 451 722 | 1 520 633 |
| 91-120 days | 2 371 223 | 1 421 844 |
| 121+days | 92 643 111 | 83 723 789 |
| | 110 625 761 | 91 783 728 |

Traffic fines: Ageing

| | | |
|---------------------|-------------------|------------------|
| Current (0-30 days) | 425 960 | 139 900 |
| 31-60 days | 210 950 | 270 900 |
| 61-90 days | 355 450 | 234 600 |
| 91-120 days | 82 448 | 69 550 |
| 121+ days | 9 407 183 | 7 009 903 |
| | 10 481 991 | 7 724 853 |

Reconciliation of provision for impairment of statutory receivables from non-exchange transactions

| | | |
|-----------------------------------|--------------------|-------------------|
| Opening balance | 95 509 508 | 65 872 964 |
| Contribution for the current year | 20 854 473 | 29 636 544 |
| | 116 363 981 | 95 509 508 |

9. VAT receivable

| | | |
|-----|---|-----------|
| VAT | - | 1 369 760 |
|-----|---|-----------|

The municipality accounts for VAT on the accrual basis. The municipality is liable to account for VAT at the standard rate of 15% in terms of Section 7(1)(a) of the VAT Act in respect of goods or services, except where the suppliers are specifically zero rated in terms of Section 11, exempted in terms of Section 12 of the VAT Act or are scped out for VAT purposes. The municipality accounts for VAT on a monthly basis.

10. Receivables from exchange transactions

Gross balances

| | | |
|-------------|--------------------|--------------------|
| Electricity | 14 242 252 | 10 948 326 |
| Refuse | 125 581 183 | 108 171 579 |
| Other | 4 291 076 | 2 568 498 |
| | 144 114 511 | 121 688 403 |

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10. Receivables from exchange transactions (continued)

Less: Allowance for impairment

| | | |
|-------------|----------------------|----------------------|
| Electricity | (4 932 209) | (1 984 082) |
| Refuse | (113 005 770) | (105 606 153) |
| Other | (3 239 920) | (1 788 727) |
| | (121 177 899) | (109 378 962) |

Net balance

| | | |
|-------------|-------------------|-------------------|
| Electricity | 9 310 043 | 8 964 244 |
| Refuse | 12 575 413 | 2 565 426 |
| Other | 1 051 156 | 779 771 |
| | 22 936 612 | 12 309 441 |

Electricity

| | | |
|----------------------|-------------------|-------------------|
| Current (0 -30 days) | 5 804 046 | 5 967 704 |
| 31 - 60 days | 332 166 | 1 138 896 |
| 61 - 90 days | 394 966 | 614 925 |
| 91 - 120 days | 251 554 | 312 422 |
| 121+ days | 7 459 520 | 2 914 379 |
| | 14 242 252 | 10 948 326 |

Refuse

| | | |
|----------------------|--------------------|--------------------|
| Current (0 -30 days) | 3 657 380 | 1 064 521 |
| 31 - 60 days | 2 068 973 | 908 903 |
| 61 - 90 days | 1 343 979 | 795 850 |
| 91 - 120 days | 1 980 103 | 774 661 |
| 121+ days | 116 530 748 | 104 627 644 |
| | 125 581 183 | 108 171 579 |

Other

| | | |
|----------------------|------------------|------------------|
| Current (0 -30 days) | 151 755 | 53 582 |
| 31 - 60 days | 44 559 | 34 695 |
| 61 - 90 days | 183 652 | 39 971 |
| 91 - 120 days | 43 364 | 29 877 |
| 121+ days | 3 867 746 | 2 410 373 |
| | 4 291 076 | 2 568 498 |

Summary of debtors by customer classification

Total

Reconciliation of allowance for impairment

| | | |
|----------------------------------|----------------------|----------------------|
| Balance at beginning of the year | (109 378 962) | (95 636 332) |
| Contributions to allowance | (11 798 937) | (13 742 630) |
| | (121 177 899) | (109 378 962) |

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10. Receivables from exchange transactions (continued)

Consumer debtors past due but not impaired

Consumer debtors which are over 30 days due but not impaired as at 30 June 2021 amounts to R13 323 431 and R5 223 634 as at 30 June 2020.

| | | |
|-------------|-----------|-----------|
| Electricity | 3 505 997 | 2 996 540 |
| Refuse | 8 918 033 | 1 500 905 |
| Other | 899 401 | 726 189 |

11. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---------------------|------------------|-------------------|
| Cash on hand | 1 717 | 4 811 |
| Bank balances | 3 529 136 | 29 065 683 |
| Short-term deposits | 128 954 | 212 416 |
| | 3 659 807 | 29 282 910 |

The municipality holds a facility account relating to the use of fleet services with a value of R500 000 and a vehicle asset finance (LCF) of R11 200 000.

The municipality had the following bank accounts

| Account number / description | Bank statement balances | | Cash book balances | |
|--|-------------------------|-------------------|--------------------|-------------------|
| | 30 June 2021 | 30 June 2020 | 30 June 2021 | 30 June 2020 |
| FNB - 62027530858 (Primary bank account) | 3 529 136 | 29 065 683 | 3 529 136 | 29 065 683 |
| FNB - 62375342377 | 94 | 94 | 94 | 94 |
| FNB - 62253771896 | 3 025 | 3 025 | 3 025 | 3 025 |
| FNB - 62377992104 | 182 | 182 | 182 | 182 |
| FNB - 62230436405 | 22 | 22 | 22 | 22 |
| FNB - 62596797559 | 697 | 4 | 697 | 4 |
| FNB - 62389585286 | 895 | 895 | 895 | 895 |
| FNB - 62389586507 | 7 898 | 7 879 | 7 898 | 7 879 |
| FNB - 62404561377 | 87 | 87 | 87 | 87 |
| FNB - 62404287345 | 57 478 | 56 442 | 57 478 | 56 442 |
| FNB - 62658357001 | 5 160 | 5 147 | 5 160 | 5 147 |
| FNB - 62305239718 | 2 932 | 88 739 | 2 932 | 88 739 |
| FNB - 74275780911 | 50 485 | 49 701 | 50 485 | 49 701 |
| Cash on hand | 1 717 | 4 811 | 1 717 | 4 811 |
| Total | 3 659 808 | 29 282 711 | 3 659 808 | 29 282 711 |

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12. Financial liabilities

| | | |
|--|------------------|------------------|
| Non-current liabilities | - | 1 334 237 |
| Current liabilities | 1 086 772 | 3 138 192 |
| | <hr/> | <hr/> |
| | 1 086 772 | 4 472 429 |
| less: future finance charges | - | (966 874) |
| | <hr/> | <hr/> |
| | 1 086 772 | 3 505 555 |
| <hr/> | | |
| Present value of minimum lease payments due | | |
| - within one year | 1 086 772 | 2 418 783 |
| - in second to fifth year inclusive | - | 1 086 772 |
| | <hr/> | <hr/> |
| | 1 086 772 | 3 505 555 |

Municipality leased twelve (12) motor vehicles from Minatlou from 01 January 2019 to 31 December 2021. Thirty six (36) monthly lease instalments of R189 000.78 in total are payable monthly for the entire lease period. The interest is charged at 12% and 18% for Toyota and Isuzu respectively. The municipality has the option to either acquire the motor vehicles at fair value or not at the end of the lease term.

The municipality leased fourteen (14) photocopying machines from Konica Minolta from 01 June 2018 to 30 June 2021. Thirty six (36) monthly lease instalments of R33 931.42 in total are payable monthly for the entire lease period. The interest is charged at 2%. Ownership of the assets will not pass to the municipality at the end of lease.

13. Trade and other payables from non-exchange transactions

| | | |
|---|----------------|-------------------|
| Municipal Infrastructure Grant | - | 9 423 318 |
| Integrated National Electrification Programme | - | 95 |
| Sub Rank Facility Grant | 3 417 | 3 417 |
| Small Town Improvement Grant | - | 7 458 |
| Single land use scheme | - | 3 500 |
| Title Deeds Ncotshane | - | 89 511 |
| Integrated Spatial Development Economic Plan | 500 000 | - |
| Koppie Allen | - | 1 335 594 |
| Mkuze Falls | - | 56 377 |
| | <hr/> | <hr/> |
| | 503 417 | 10 919 270 |

14. Other financial liabilities

| | | |
|---------------------------------|---------|---------|
| Designated at fair value | | |
| Other financial liability | 341 542 | 341 542 |
| | <hr/> | <hr/> |

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15. Provisions

Reconciliation of provisions-2021

| | Opening Balance | Additions | Total |
|---|------------------|------------------|-------------------|
| Non current: Environmental rehabilitation | 7 046 054 | 2 822 798 | 9 868 852 |
| Current: Bonuses | 152 226 | 481 477 | 633 703 |
| | 7 198 280 | 3 304 275 | 10 502 555 |

Reconciliation of provisions-2020

| | Opening Balance | Additions | Utilised during the year | Total |
|------------------------------|------------------|----------------|--------------------------|------------------|
| Environmental rehabilitation | 7 002 686 | 43 368 | - | 7 046 054 |
| Current Bonuses | 85 000 | 67 226 | - | 152 226 |
| | 7 087 686 | 110 594 | - | 7 198 280 |

| | | | | |
|-------------------------|--|--|-------------------|------------------|
| Non-current liabilities | | | 9 868 852 | 7 046 054 |
| Current liabilities | | | 633 703 | 152 226 |
| | | | 10 502 555 | 7 198 280 |

Bonus provision: The bonus provision is to provide for performance bonuses of the section 54 & 55 employees. Performance bonuses are paid one year in arrears as the assessment of eligible employees takes place after year end.

Rehabilitation of landfill site

Landfill site: The rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal at the time of closure. The value of the provision is based on the present value of the expected future costs to rehabilitate the site.

Rehabilitation costs were calculated based on the following assumptions:

| Assumptions | Percentage | Percentage |
|------------------|------------|------------|
| Annual inflation | 6% | 4.140% |
| Discount rate | 10% | 10.920% |

The landfill site is 5 hectares and the area expected to be rehabilitated is 3 hectares. The estimated closure date is 2035/36. The municipality has an obligation to rehabilitate the landfill site at the end of the usage period of 16 years. The value of the provision is created for the rehabilitation of the current operational site at the future estimated time for closure. The value of the provision is based on the expected future cost to rehabilitate the discount back to the reporting date at the cost of capital, which is 6.6%. The cost of such property includes the initial estimate of the costs of rehabilitating the land and restoring the site on which it is located, the obligation for which a municipality incurs as a consequence of having used the property during a particular period for landfill purposes. The municipality estimates the useful life and makes assumptions as to the useful life of the assets, which influence the provision for future costs.

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16. Long- service awards

Employee who achieves 20 years' service has a choice of 20 days paid leave (once off) or encashment of leave.

Employee who achieves 30 years' service has a choice of 30 days paid leave (once off) or encashment leave.

Employee who achieves 35 years' service has a choice of 50 days paid leave (once off) or encashment of leave.

The abovementioned leave is granted in addition to the annual leave entitlement and maximum accumulation granted in terms of the National Conditions of Service. The leave may be taken, converted to cash fully or partially or accumulated. The leave is only applicable to those employees who have achieved the stated years of service after the effective date of these conditions.

The provision is an estimate of the long service award based on the monthly salaries rate as at 30 June 2021. It has been assumed that the staff turnover rate will be insignificant based on historical data. The provision has not yet been discounted based on the fact that the interest cost is insignificant and their fair presentation of the provisions not materially affected.

The valuation of the liability was performed in line with GRAP 25: Employee benefits, by One Pangaea Expertise and Solutions as at 30 June 2021.

The actuarial valuation is performed every two years.

Changes in the present value of the long-service obligation are as follows:

| | | |
|-----------------------|--------------------|--------------------|
| Opening balance | (1 382 878) | (1 294 001) |
| Service cost | (120 169) | (122 314) |
| Interest cost | (167 198) | (133 459) |
| Actuarial gain/(loss) | (929 588) | (312 621) |
| Benefits paid | 966 757 | 479 517 |
| | (1 633 076) | (1 382 878) |

Net expense recognised in the statement of financial performance

| | | |
|-----------------------|--------------------|------------------|
| Service cost | (120 169) | (122 314) |
| Interest cost | (167 198) | (133 459) |
| Actuarial gain/(loss) | (929 588) | (312 621) |
| | (1 216 955) | (568 394) |

Principal actuarial assumptions used

| | | |
|---------------|--------|--------|
| Discount rate | 10.74% | 12.34% |
|---------------|--------|--------|

Principal actuarial assumptions used

| | Percentage | Percentage |
|---------------------------------|------------|------------|
| Discount rate | 10.74% | 12.34% |
| Salary inflation rate | 7.49% | 8.24% |
| 1% decrease in salary inflation | 10.15% | 10.02% |
| 1% increase in salary inflation | 11.63% | 11.46% |

17. Long term loans- long term portion

| | | |
|-------------------------|------------------|------------------|
| Non-Current Liabilities | 1 235 113 | 2 710 586 |
| Current Liabilities | 1 148 647 | 4 403 263 |
| | 2 383 760 | 7 113 849 |

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17. Long term loans- long term portion (continued)

Standard Bank:

The municipality has a loan with Standard Bank for the purchase of property, plant and equipment. The loan bears an interest average effective borrowing rate of 7.38% per annum. The loan is repayable on a semi-annual basis with final payment due on 30 June 2023.

Property, plant and equipment with a combined carrying value of R2 556 900.10 and bi-annual repayments (R639 225.03) have been pledged as security.

18. Trade and other payables from exchange transactions

| | | |
|-----------------------------|-------------------|-------------------|
| Trade payables | 17 003 769 | 41 479 215 |
| Retentions | 6 884 771 | 6 097 997 |
| Staff leave accrual | 6 652 903 | 6 448 347 |
| Accrued bonus | - | 2 789 659 |
| Payroll deductions | (14 831) | (5 227) |
| Deposits- Other | - | 685 996 |
| Debtors with credit balance | 2 289 397 | 1 036 274 |
| | 32 816 009 | 58 532 261 |

19. Consumer deposits

| | | |
|-------------|-----------|-----------|
| Electricity | 2 736 960 | 2 034 382 |
|-------------|-----------|-----------|

20. Service charges

| | | |
|---------------------|-------------------|-------------------|
| Sale of electricity | 47 733 640 | 43 426 337 |
| Refuse removal | 11 749 477 | 11 090 944 |
| | 59 483 117 | 54 517 281 |

21. Rental of facilities and equipment

| | | |
|---------------------------------|---------|---------|
| Facilities and equipment | | |
| Rental of facilities | 631 412 | 611 191 |

22. Fines, Penalties and Forfeits

| | | |
|---------------|-----------|-----------|
| Traffic Fines | 3 309 350 | 2 080 250 |
|---------------|-----------|-----------|

23. Licences and permits (exchange)

| | | |
|----------------------|-----------|-----------|
| Licences and permits | 1 366 261 | 1 077 757 |
|----------------------|-----------|-----------|

24. Interest on receivables

| | | |
|----------------------|------------|------------|
| Interest receivables | 19 991 687 | 12 118 566 |
|----------------------|------------|------------|

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25. Operational revenue

| | | |
|---|------------------|------------------|
| Electricity connection and reconnections fees | 35 719 | 105 717 |
| Building plans | - | 23 877 |
| Burial fees | - | 95 495 |
| NPA fees | 1 001 137 | 616 208 |
| Sign boards | - | 72 490 |
| Tender document fees | 322 727 | 215 218 |
| Certificate clearance and validation | 1 903 | 11 814 |
| Dumping fees | 5 423 | 3 367 |
| Other | 551 584 | 306 957 |
| | 1 918 493 | 1 451 143 |

26. Interest received- investment

Interest on investments

| | | |
|----------------------|------------------|------------------|
| Current Account | 127 227 | 436 657 |
| External investments | 1 677 891 | 1 408 338 |
| | 1 805 118 | 1 844 995 |

27. Property rates

Rates levied

| | | |
|--------------------------|-------------------|-------------------|
| Residential | 15 444 600 | 8 978 998 |
| Commercial | 12 375 213 | 10 079 753 |
| Public service purposes | 9 575 794 | 9 082 380 |
| Small holdings and farms | 6 644 392 | 11 492 383 |
| | 44 039 999 | 39 633 514 |

Valuations

| | | |
|--------------------------|----------------------|----------------------|
| Residential | 758 593 000 | 753 473 000 |
| Commercial | 647 580 000 | 515 650 000 |
| Public service purposes | 537 878 000 | 443 642 000 |
| Municipal | 41 355 500 | 43 170 000 |
| Small holdings and farms | 1 708 027 300 | 1 731 590 600 |
| | 3 693 433 800 | 3 487 525 600 |

Valuations on land and buildings are performed every 5 years. The last general valuation came into effect on 1 July 2020. Rebates of R60 000 are granted to residential and 30% to public services infrastructure. Rates are levied on a monthly basis on property owners.

Supplementary valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

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28. Government grants and subsidies

Operating grants

| | | |
|---------------------------------------|--------------------|--------------------|
| Equitable share | 175 830 000 | 136 387 000 |
| Expanded Public Works Programme Grant | 3 055 000 | 2 513 000 |
| Financial Management Grant | 2 800 000 | 2 435 000 |
| Provincialisation of Libraries Grant | 1 809 000 | 1 760 000 |
| Community Libraries Services Grant | 452 000 | 422 000 |
| Disaster Relief Grant | - | 879 000 |
| Ncotshane Title Deeds Grant | 582 492 | - |
| Small Town Improvement Grant | 7 458 | - |
| | 184 535 950 | 144 396 000 |

Capital grants

| | | |
|--------------------------------|--------------------|--------------------|
| Municipal Infrastructure Grant | 37 212 318 | 24 832 183 |
| | 184 535 950 | 144 396 000 |
| | 37 212 318 | 24 832 183 |
| | 221 748 268 | 169 228 183 |

Equitable Share

| | | |
|---|---------------|---------------|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 175 830 000 | 136 387 000 |
| Conditions met - transferred to revenue | (175 830 000) | (136 387 000) |
| | - | - |

Municipal Infrastructure Grant

| | | |
|---|--------------|------------------|
| Balance unspent at beginning of year | 9 423 318 | 5 953 502 |
| Current-year receipts | 27 789 000 | 28 302 000 |
| Conditions met - transferred to revenue | (37 212 318) | (24 832 184) |
| | - | 9 423 318 |

Conditions have been met (see note 13).

This grant is used to construct basic municipal infrastructure to provide basic services for the benefit of the community within the municipal boundaries. The conditions of the grant were met and no funds have been withheld.

Finance Management Grant

| | | |
|---|-------------|-------------|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 2 800 000 | 2 435 000 |
| Conditions met - transferred to revenue | (2 800 000) | (2 435 000) |
| | - | - |

Conditions have been met (see note 13).

The purpose of this grant is to promote and support reforms in financial management by building capacity to implement the Municipal Finance Management Act. The conditions of the grant were met and no funds have been withheld.

Housing Grant

| | | |
|--------------------------------------|--------------|--------------|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 47 374 039 | 12 289 833 |
| Payment made to suppliers | (47 374 039) | (12 289 833) |
| | - | - |

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28. Government grants and subsidies (continued)

Conditions have been met (see note 13).

This grant relates to the implementation and provision of housing projects to the community in need of them. The funding provided to the municipality has been fully spent as at the end of the financial year and no funds have been withheld. This grant is accounted for in terms of GRAP 109, therefore the expenditure and revenue is not recorded in the books of the municipality.

Expanded Public Works Programme Grant

| | | |
|--------------------------------------|-------------|-------------|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 3 055 000 | 2 513 000 |
| Payment made to suppliers | (3 055 000) | (2 513 000) |
| | - | - |

Conditions have been met (see note 13).

The Expanded Public Works Programme is a special performance based incentive provided to municipalities that contribute to the employment creation efforts of the Expanded Public Works Programme through the employment of previously unemployed people. The conditions of this grant were met and no funds were withheld.

Koppie-Allen Guesthouse Grant Fund

| | | |
|--------------------------------------|-------------|-----------|
| Balance unspent at beginning of year | 1 335 594 | - |
| Current-year receipts | - | 1 500 000 |
| Payments made to suppliers | (1 335 594) | (164 406) |
| | - | 1 335 594 |

Conditions have been met (see note 13).

The purpose of this grant was to upgrade the Koppie-Allen Guesthouse which is intended to be used for booking by tourist visiting uPhongolo territory. The conditions of this grant were met and no funds were withheld.

Mkuze Falls Grant

| | | |
|--------------------------------------|-------------|-------------|
| Balance unspent at beginning of year | 56 377 | - |
| Current-year receipts | 3 000 000 | 2 500 000 |
| Payments made to suppliers | (3 056 377) | (2 443 623) |
| | - | 56 377 |

Conditions have been met (see note 13).

The purpose of this grant is to furnish and upgrade the infrastructure of the Mkuze Falls Game Reserve for the of attracting the tourist to visit this Game Reserve. The conditions of this grant were met and no fund were withheld.

Single Land Use Scheme

| | | |
|---|---------|-------|
| Balance unspent at beginning of year | 3 500 | 3 500 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | - | - |
| Payment surrendered to COGTA | (3 500) | - |
| | - | 3 500 |

This grant relates to implementation of Spluma. The unspent grant was surrendered to COGTA.

Integrated Spatial Development Economic Plan Grant

| | | |
|--------------------------------------|---|---|
| Balance unspent at beginning of year | - | - |
|--------------------------------------|---|---|

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28. Government grants and subsidies (continued)

| | | |
|---|----------------|----------|
| Current-year receipts | 500 000 | - |
| Conditions met - transferred to revenue | - | - |
| | 500 000 | - |

Conditions have not been met (see note 13).

The purpose of this grant is to develop an Integrated Spatial Development Plan for the municipality. The conditions of this grant were not met as at the 30th of June 2021.

Community Libraries Grant

| | | |
|---|-----------|-----------|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 452 000 | 422 000 |
| Conditions met - transferred to revenue | (452 000) | (422 000) |
| | - | - |

Conditions have been met (see note 13).

This grant is used to pay salaries for Cyber Cadets and subsidise operational costs associated with libraries. The conditions for this grant were met and no funds were withheld.

Integrated National Electrification Programme Grant

| | | |
|--------------------------------------|-------------|-------------|
| Balance unspent at beginning of year | 95 | - |
| Current-year receipts | 7 000 000 | 8 500 000 |
| Payment made to suppliers | (7 000 095) | (6 909 223) |
| | - | 95 |

Conditions have been met (see note 13).

The purpose of the grant is to address the electrification backlog of permanently occupied dwellings, the installation of bulk infrastructure and rehabilitation of electricity infrastructure in order to improve quality of supply. The conditions of this grant were met and no funds were withheld. This grant is accounted for in terms of GRAP 109, therefore expenditure and revenue is not recognised in the books of the municipality.

Pound Grant

| | | |
|--|---|-------------|
| Balance unspent at beginning of year | - | 1 000 000 |
| Current-year receipts | - | - |
| Conditions met- transferred to revenue | - | - |
| Unspent surrendered to COGTA | - | (1 000 000) |
| | - | - |

No funds were received in the current year. (see note 13).

This grant was provided in order to construct the pound in the Pongola area.

Sub-Rank Facility Grant

| | | |
|---|--------------|--------------|
| Balance unspent at beginning of year | 3 417 | 3 417 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | - | - |
| | 3 417 | 3 417 |

Conditions still to be met - remain liability (see note 13).

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28. Government grants and subsidies (continued)

The purpose of this grant is to construct the Sub-Rank facility in Pongola town. The conditions of this grant were not met as at the 30th of June 2021.

Provincialisation of Libraries Grant

| | | |
|---|-------------|-------------|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | 1 809 000 | 1 760 000 |
| Conditions met - transferred to revenue | (1 809 000) | (1 760 000) |
| | - | - |

Conditions have been met (see note 13).

The purpose of this grant is to subsidise operational costs associated with libraries. The conditions of this grant were met and no funds were withheld.

Small Town Improvement Grant

| | | |
|---|---------|-------|
| Balance unspent at beginning of year | 7 458 | 7 458 |
| Current-year receipts | - | - |
| Conditions met - transferred to revenue | (7 458) | - |
| | - | 7 458 |

Conditions have been met (see note 13).

The purpose of this grant was to install streetlights and high mast in Pongola. The conditions of this grant were met and no funds were withheld.

Municipal Disaster Relief Grant Fund

| | | |
|---|---|-----------|
| Balance unspent at beginning of year | - | - |
| Current-year receipts | - | 879 000 |
| Conditions met - transferred to revenue | - | (879 000) |
| | - | - |

Conditions were met (see note 13).

The purpose of this grant was to assist the municipality in procuring the personal protective equipment and other goods to assist in fighting against the spread of Covid-19 pandemic. The conditions for this grant were met and no funds were withheld.

Ncotshane Title Deeds

| | | |
|---|-----------|--------|
| Balance unspent at beginning of year | 89 511 | 89 511 |
| Current-year receipts | 492 981 | - |
| Conditions met - transferred to revenue | (582 492) | - |
| | - | 89 511 |

Conditions were met (see note 13).

This grant was used for transferring Title deeds to the community of uPhongolo. The conditions of this grant were met and no funds were withheld.

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29. Employee related costs

| | | |
|---|--------------------|-------------------|
| Salaries and wages | 72 368 049 | 60 501 773 |
| Performance and other bonus | 5 515 957 | 4 714 818 |
| Medical aid - company contributions | 3 462 874 | 3 111 354 |
| UIF- company contributions | 537 242 | 439 988 |
| WCA | 521 524 | 439 358 |
| SDL | 735 047 | 644 670 |
| Standby allowance | 1 476 741 | 1 633 551 |
| Leave payout | 2 075 866 | 1 344 223 |
| Remote allowance | 170 267 | 177 605 |
| Group Life Insurance- company contributions | 37 872 | 56 209 |
| Pension and provident fund | 8 556 083 | 7 776 568 |
| Car allowances | 5 537 438 | 7 136 826 |
| Overtime payments | 1 383 169 | 2 950 583 |
| Long-service awards | 120 169 | 122 314 |
| Acting allowances | 406 674 | 140 452 |
| Cellphone allowance | 350 596 | 346 212 |
| Housing benefits and allowances | 81 112 | 285 900 |
| Clothing Allowance | 63 516 | - |
| Industrial Council | 30 749 | 28 827 |
| Danger Allowance | 214 255 | - |
| | 103 645 200 | 91 851 231 |

Remuneration of Municipal Manager

| | | |
|----------------------|------------------|------------------|
| Annual Remuneration | 1 030 759 | 1 030 759 |
| Allowances | 341 230 | 355 630 |
| Performance Bonuses | - | 103 121 |
| Contributions to SDL | 9 331 | 11 877 |
| | 1 381 320 | 1 501 387 |

Remuneration of Chief Financial Officer

| | | |
|----------------------|------------------|------------------|
| Annual Remuneration | 950 907 | 870 435 |
| Allowances | 386 089 | 375 617 |
| Performance Bonuses | - | 99 831 |
| Contributions to SDL | 10 731 | 11 669 |
| | 1 347 727 | 1 357 552 |

Remuneration of Technical Services Director

| | | |
|----------------------|----------------|------------------|
| Annual Remuneration | 846 307 | 846 307 |
| Allowances | - | 374 652 |
| Performance Bonuses | - | 66 539 |
| Contributions to SDL | 8 379 | 11 576 |
| | 854 686 | 1 299 074 |

Remuneration of Community Services Director

| | | |
|----------------------|----------------|------------------|
| Annual Remuneration | 582 405 | 846 307 |
| Allowances | 42 153 | 344 052 |
| Performance Bonuses | - | 64 213 |
| Contributions to SDL | 5 343 | 10 206 |
| | 629 901 | 1 264 778 |

The Community Services Director resigned on the 08th of December 2020.

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29. Employee related costs (continued)

Remuneration of Corporate Services Director

| | | |
|----------------------|------------------|------------------|
| Annual Remuneration | 846 307 | 846 307 |
| Allowances | 374 652 | 374 652 |
| Contributions to SDL | 9 030 | 9 079 |
| | 1 229 989 | 1 230 038 |

30. Remuneration of councillors

| | | |
|-----------------------------|------------------|------------------|
| Mayor | 491 066 | 524 648 |
| Deputy Mayor | 428 598 | 428 598 |
| Executive Committee Members | 1 214 657 | 1 089 807 |
| Speaker | 428 598 | 428 598 |
| Councillors | 7 179 465 | 7 440 202 |
| | 9 742 384 | 9 911 853 |

In-kind benefits

The municipality has 29 part-time Councillors. The Mayor, Deputy Mayor, Speaker and Executive Committee Members are not full-time. They are provided with an office and secretarial support at the cost of the Council.

The Mayor, Deputy Mayor and Speaker each have full-time contracted bodyguards, other councillors each have one full-time bodyguard.

The Mayor, Deputy Mayor and Speaker each have the use of separate Council owned vehicles for official duties.

31. Depreciation, amortisation and impairment

| | | |
|--|-------------------|-------------------|
| Property, plant and equipment | 24 347 899 | 22 893 148 |
| Intangible assets | 409 165 | 227 414 |
| Impairment-Property, plant and equipment | 547 847 | 19 988 |
| Impairment-Intangibles | - | 12 195 |
| | 25 304 911 | 23 152 745 |

32. Finance costs

| | | |
|-------------------------|------------------|------------------|
| Borrowings | 821 358 | 688 160 |
| Suppliers | - | 960 913 |
| Landfill site interest | - | 43 368 |
| Capitalised | 408 301 | - |
| Actuarial interest cost | 341 732 | 348 717 |
| | 1 571 391 | 2 041 158 |

33. Debt impairment

| | | |
|---|-------------------|-------------------|
| Debt impairment- statutory receivables | - | 29 636 543 |
| Debt impairment- receivables from exchange transactions | 32 653 411 | 13 742 630 |
| | 32 653 411 | 43 379 173 |

34. Bulk purchases

| | | |
|---------------------|------------|------------|
| Electricity - Eskom | 34 080 640 | 31 920 342 |
|---------------------|------------|------------|

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34. Bulk purchases (continued)

Electricity losses

| | | |
|-------------------|------------------|------------------|
| Units purchased | 28 948 128 | 28 691 645 |
| Units sold | (25 196 077) | (25 816 153) |
| Total loss | 3 752 051 | 2 875 492 |

Electricity losses in Rands comprises of:

| | | |
|--------------------|-----------|-----------|
| Electricity losses | 4 120 587 | 3 199 073 |
|--------------------|-----------|-----------|

Percentage Loss:

| | | |
|--------------------|------|------|
| Electricity losses | 14 % | 10 % |
|--------------------|------|------|

The municipality purchased 28 948 128 units (2020:28 691 645 units) from Eskom and sold 25 196 077 units (2020:25 816 153 units) to consumers. This represents a loss of 3 752 051 units (2020: 2 875 492 units) which equates to R4 120 587 (2020: R3 199 073) and translates to a percentage of 14% (2020:10%). The electricity losses are as a result of technical losses and illegal connections.

35. Operational costs

| | | |
|-----------------------------------|-------------------|-------------------|
| Advertising | 1 118 048 | 654 917 |
| Auditors remuneration | 1 678 576 | 1 442 124 |
| Bank charges | 710 387 | 565 534 |
| Cleaning | - | 696 267 |
| Audit committee fees | - | 35 151 |
| Consulting and professional fees | 213 340 | 1 292 428 |
| Electricity and refuse | 111 294 | 554 213 |
| Expanded public works programme | 1 157 206 | 1 029 604 |
| Insurance | 535 311 | 1 110 637 |
| Licence fees | 256 579 | 109 247 |
| Fuel and oil | 1 860 111 | 2 084 923 |
| Postage and courier | - | 1 363 |
| Printing and stationery | 381 883 | 735 276 |
| Public participation | 1 199 880 | 2 705 764 |
| Refreshments | - | 670 200 |
| Repairs and maintenance | 25 249 185 | 11 377 557 |
| Rental of office equipment | - | 500 248 |
| Contracted services | 40 766 265 | 23 137 671 |
| Subscriptions and membership fees | 1 153 638 | 1 535 026 |
| Telephone and fax | 1 070 138 | 1 046 613 |
| Transport | - | 7 093 |
| Training | 651 188 | 2 016 350 |
| Travel and subsistence | 3 125 082 | 3 511 428 |
| Uniform and overall | 742 617 | 826 298 |
| Ward upliftment and LED projects | 2 095 200 | 3 532 876 |
| Water and sanitation | - | 190 842 |
| Hire of equipment | - | 157 504 |
| Other expenses | 12 789 246 | 8 046 301 |
| | 96 865 174 | 69 495 715 |

36. Fair value adjustments

| | | |
|--|-----------|---------|
| Investment property (Fair value model) | 1 430 000 | 409 000 |
|--|-----------|---------|

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37. Auditors' remuneration

| | | |
|------|-----------|-----------|
| Fees | 1 678 576 | 1 442 124 |
|------|-----------|-----------|

38. Cash generated from operations

| | | |
|--|-------------------|-------------------|
| Surplus | 47 649 817 | 10 389 513 |
| Adjustments for: | | |
| Depreciation and amortisation | 25 304 911 | 23 152 745 |
| Profit /loss on sale of capital assets | 723 338 | (124 588) |
| Fair value adjustments | (1 430 000) | (409 000) |
| Changes in working capital: | | |
| Receivables from exchange transactions | (10 627 171) | 6 828 601 |
| Receivables from non-exchange transactions | (744 698) | 6 413 038 |
| Prepayments | 209 968 | (202 855) |
| Payables from exchange transactions | (25 716 181) | 4 218 582 |
| VAT | 2 812 152 | 691 721 |
| Consumer deposit | 702 578 | (51 315) |
| Unspent conditional grants and receipts | (10 415 853) | 3 861 892 |
| Movement in landfill site | 408 301 | 43 368 |
| Movement in long service award | 250 198 | 88 877 |
| Movement in retirement liabilities | 117 881 | (148 158) |
| Movement in bonuses | 481 477 | 67 227 |
| | 29 726 718 | 54 819 648 |

39. Commitments

Property, Plant and Equipment Contractual Commitments

| 2020/2021 | Community Assets | Infrastructure Assets | Transport Assets | Total |
|---|------------------|-----------------------|------------------|------------|
| The following commitments exist at the reporting date: | | | | |
| Commitments for the acquisition of property, plant and equipment | - | - | 5 626 537 | 5 626 537 |
| Commitments to construct or develop property, plant and equipment | 18 698 569 | 10 312 582 | - | 29 011 151 |

| 2019/2020 | Community Assets | Infrastructure Assets | Transport Assets | Total |
|---|------------------|-----------------------|------------------|------------|
| Commitments to construct or develop property, plant and equipment | 15 546 019 | 24 088 920 | - | 39 634 939 |

The committed expenditure has been disclosed exclusive of VAT. These committed capital expenditure relates only to property, plant and equipment.

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40. Contingencies

Contingent liabilities

PON141

| | | |
|---|------------------|------------------|
| Disconnect error | 55 369 | 55 369 |
| Pongola advertiser suing the municipality | 600 000 | 600 000 |
| V1 security suing the municipality | 500 000 | 500 000 |
| | 1 155 369 | 1 155 369 |

Contingent assets

Elam Investments

| | | |
|---|----------------|----------------|
| Payment made for accommodation during SALGA games | 164 840 | 164 840 |
| | 164 840 | 164 840 |

41. Related parties

Relationships

Key Management personnel

Councillors

Senior managers

Refer to Remuneration of Councillors note

Refer to Employee related costs note

There were no related party transactions that were not at arms length during the financial period

42. Change in estimate

Property, plant and equipment

During the current financial year, the municipality performed a condition assessment on assets. With assets that were nearing their useful lives or that had impairment indicators, the remaining useful life was adjusted to take into account the current situation. The result of the adjustment is a change in expected depreciation. In the current year, the depreciation increased by R195 372.26 and in future years the depreciation will decrease by the same amount.

43. Prior period errors

Certain comparative figures have been restated due to errors identified in the current year. The effects of the restatement are as follows:

Accumulated Surplus

| | | |
|---|---|----------------------|
| Audited Balance | - | (432 289 383) |
| Correction of error-Fleet Horizon Current loan | - | 400 695 |
| Mkuze Falls-Unspent | - | (10) |
| Recognition of refund from Seartec Trading | - | (19 932) |
| Fair value adjustment | - | 2 350 000 |
| Capitalised projects completed in prior year | - | 134 027 |
| Reversal of Transfers and subsidies | - | (2 497 717) |
| Correction of error | - | (12 831) |
| Raising of debt impairment on statutory receivables | - | 85 073 167 |
| Reversal of Transfer and Subsidies Revenue | - | 2 608 029 |
| Reversal of fair value adjustment | - | 1 700 000 |
| Prior year vat correction | - | (439 875) |
| Seartec Refund | - | (38 870) |
| Restated balance | - | (343 032 700) |

The error relates to the correction in respect of the Fleet Horizons's installment which was paid but not recognised. The comparative figures have been appropriately adjusted. The effect of the correction of this error on the results of 2020 is as follows:

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43. Prior period errors (continued)

Long term loans-current portion

| | | |
|--|---|------------------|
| Audited Balance | - | 4 002 568 |
| Recognition of Fleet Horizons installment paid | - | 400 695 |
| Restated balance | - | 4 403 263 |

The error relates to the correction in respect of the unspent amount for Mkuze Falls that was not recognised. The comparative figures have been appropriately adjusted. The effect of the correction of this error on the results for 2020 is as follows:

Mkuze Falls-Unspent

| | | |
|-------------------------|---|---------------|
| Audited balance | - | 56 387 |
| Restatement | - | (10) |
| Restated balance | - | 56 377 |

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43. Prior period errors (continued)

Operational costs

| | | |
|--|---|-------------------|
| Audited balance | - | 69 554 517 |
| Recognition of refund from Seartec Trading | - | (19 932) |
| Recognition of Rautels Motors expenditure | - | (38 870) |
| Restated balance | - | 69 495 715 |

The error relates to Investment Property and Land. A change in use occurred in the 2018/19 Financial Year however the vacant land was not transferred from Investment Property to Property, Plant and Equipment (Land) as required by GRAP 16. This resulted in the Fair Value Adjustment being recognised in the respective item of Investment Property. The effect of the error is as follows:

Investment Property

| | | |
|---|---|-------------------|
| Audited Balance | - | 70 590 000 |
| Transfer to Property, Plant & Equipment | - | (6 700 000) |
| Fair Value Adjustment Reversal | - | (4 050 000) |
| Restated balance | - | 59 840 000 |

Property, Plant and Equipment

| | | |
|--|---|--------------------|
| Audited Balance | - | 320 151 800 |
| Transfer from Investment Property to Land | - | 6 700 000 |
| Recognition of depreciation on projects completed in the previous year | - | (134 027) |
| Restated balance | - | 326 717 773 |

Fair value adjustment-Investment Property

| | | |
|--|---|----------------|
| Audited balance | - | 2 759 000 |
| Reversal of fair value adjustment recognised in the prior year | - | (2 350 000) |
| Restated balance | - | 409 000 |

Government grants and subsidies

| | | |
|---|---|--------------------|
| Audited balance | - | 171 836 212 |
| Reversal of revenue incorrectly recognised in terms of GRAP 109 | - | (2 608 029) |
| Restated balance | - | 169 228 183 |

Statutory receivables from non-exchange transactions

| | | |
|-------------------------|---|------------------|
| Audited balance | - | 89 072 240 |
| Raising of impairment | - | (85 073 167) |
| Restated balance | - | 3 999 073 |

VAT Receivable

| | | |
|--|---|------------------|
| Audited balance | - | 929 885 |
| Recognition of Input VAT on prior year expenditure | - | 439 875 |
| Restated balance | - | 1 369 760 |

Transfers and Subsidies

| | | | | | |
|---|---|---|---|---|----------------|
| Audited balance | - | - | - | - | 3 293 525 |
| Reversal of transfers and subsidies expenditure recognised in terms of GRAP 109 | - | - | - | - | (2 497 717) |
| Restated balance | - | - | - | - | 795 808 |

The error relates to the payment of Rautels Motors that was incorrectly recognised in the Consumer deposit account. The comparative figures have been appropriately adjusted. The effect of the correction of this error on the result for 2020 is as follows:

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43. Prior period errors (continued)

Consumer deposits

| | |
|--|------------------|
| Audited balance | 1 995 512 |
| Reversal of payment incorrectly recognised | 38 870 |
| Restated balance | 2 034 382 |

The error relates to the reversal of or electricity estimate that was recognised in services charges account. The comparatives figures have been appropriately adjusted. The effect of the correction of this error on the result for 2020 is as follows:

Debt impairment

| | |
|--|-------------------|
| Audited balance | 14 295 976 |
| Raising of statutory receivables impairments | 29 083 197 |
| Restated balance | 43 379 173 |

Depreciation, amortisation and impairment

| | |
|--------------------------------------|-------------------|
| Audited balance | 23 018 718 |
| Projects completed in the prior year | 134 027 |
| Restated balance | 23 152 745 |

The error relates to the input VAT that was incorrectly recognised. The comparative figures have been appropriately adjusted. the effect of the correction of this error on the result for 2020 is as follows:

Commitments

| | |
|--|-------------------|
| Audited balance | 42 155 794 |
| Derecognition of VAT included in Commitments | (2 520 855) |
| Restated balance | 39 634 939 |

44. 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.

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44. Risk management (continued)

Liquidity risk

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

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

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| | 2021 | 2020 |
|---|-------------------|-------------------|
| Consumer deposits | 2 736 960 | 2 034 382 |
| Trade and payables from exchange transactions | 32 816 010 | 58 532 261 |
| Current portion of loans | 1 148 647 | 4 403 263 |
| Non-current portion of loans | 1 235 113 | 2 710 586 |
| | 37 936 730 | 67 680 492 |

The municipality objective when managing capital are to safeguard the municipality's ability to continue as a going concern in order to provide returns for members and benefits to other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. The capital structure of the municipality consist of debt, which includes borrowings (excluding derivative financial liabilities) disclosed in note 12, cash and cash equivalents in note 3 and equity as disclosed in statement of financial position. There are no externally imposed capital requirements. There have been no changes on what the municipality manages as capital, the strategy for capital maintenance or externally imposed capital requirements for the previous year.

Credit risk

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

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

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

| Financial instrument | 2021 | 2020 |
|--|------------|------------|
| Cash and cash equivalents | 3 659 807 | 29 282 710 |
| Receivables from exchange transactions | 22 936 612 | 12 309 441 |
| Statutory receivables from non exchange transactions | 4 743 771 | 3 999 073 |

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.

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45. 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.

46. Events after the reporting date

Council have suspended the Chief Financial Officer and the Municipal Manager with immediate effect effective from the 14th of December 2021. The Council appointed Mr MB Khali as Acting Municipal Manager and Mr SF Mkhize as the Acting Chief Financial Officer.

47. Unauthorised expenditure

| | | |
|--|-------------------|-------------------|
| Opening balance as previously reported | 29 206 811 | 16 177 098 |
| Opening balance | 29 206 811 | 16 177 098 |
| Employee related costs | 3 454 274 | 1 963 347 |
| Depreciation and amortization | - | 9 206 536 |
| Impairment loss reversal | - | 32 183 |
| Debt impairment | 14 094 161 | 1 777 176 |
| Finance charges | 1 053 457 | 50 471 |
| Loss on disposal of assets | 519 871 | - |
| General expenses | 2 064 989 | - |
| Less: Amount written off by Council | (16 177 098) | - |
| Closing balance | 34 216 465 | 29 206 811 |

The above unauthorised expenditure within the votes is as a result of year-end accounting transactions exceeding the allocated budget. This unauthorised expenditure will be tabled in the adjustment budget when the annual report is tabled in accordance with Section 23(6) of the budget and reporting regulations. The council wrote-off the prior year unauthorised expenditure in terms of the council resolution dated 31 August 2021 without investigation.

48. Fruitless and wasteful expenditure

| | | |
|--|------------------|------------------|
| Opening balance as previously reported | 1 742 537 | 1 730 200 |
| Opening balance | 1 742 537 | 1 730 200 |
| Add: Current year interest and penalties | 2 529 | 12 337 |
| Less: Amount written off by Council | (1 123 416) | - |
| Closing balance | 621 650 | 1 742 537 |

The fruitless and wasteful expenditure incurred during the current year has not yet been presented to the Council.

Fruitless and wasteful expenditure relates to interest and penalties on late payments.

The council wrote-off the prior year fruitless and wasteful expenditure in terms of council resolution dated 31 August 2021 without investigation.

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48. Fruitless and wasteful expenditure (continued)

Expenditure identified in the current year include those listed below:

| | Disciplinary steps taken/criminal proceedings | | |
|---------------------------|--|-------|--------|
| | To be reported to the Council | | |
| Interest on late payments | | 2 529 | 12 337 |

49. Irregular expenditure

| | | |
|---|--------------------|--------------------|
| Opening balance as previously reported | 126 219 241 | 125 591 763 |
| Opening balance as previously reported | 126 219 241 | 125 591 763 |
| Prior year irregular expenditure identified in the current period | - | - |
| SCM processes not followed | 404 337 | 627 478 |
| Less: Amount written off by Council | (82 775 143) | - |
| Closing balance | 43 848 435 | 126 219 241 |

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49. Irregular expenditure (continued)

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

| | Disciplinary steps taken/criminal proceedings | | |
|----------------------------|---|---------|---------|
| SCM processes not followed | To be reported to the Council | 404 337 | 627 478 |

Amounts written-off

The council wrote-off the prior year irregular expenditure in terms of council resolution dated 31 August 2021 without investigation.

Disciplinary steps taken/criminal proceedings

50. Supply Chain Management Regulation of the MFMA

Awards to close family members of persons in the service of the state:

The below table shows that there were no awards made to close family members in 2021 financial year.

Name of the service provider

Ezikamsiyane Enterprises

Uzuko Development

Employee name

Mrs PPE Xulu

Miss PP
Mndebele

Job title

Assistant
Librarian

Secretary to
Council

- 56 000

- 49 910

- - - **105 910**

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51. Additional disclosure in terms of Municipal Finance Management Act

SALGA Subscription

| | | |
|----------------------------|-------------|-------------|
| Opening balance | - | - |
| Current year subscription | 1 153 638 | 1 535 026 |
| Amount paid - current year | (1 153 638) | (1 535 026) |
| | - | - |

Audit fees

| | | |
|---------------------------------|--------------|---------------|
| Opening balance | 66 616 | - |
| Current year subscription / fee | 1 678 576 | 1 442 124 |
| Amount paid - current year | (1 673 890) | (1 375 508) |
| Amount paid - previous years | (66 616) | - |
| | 4 686 | 66 616 |

PAYE and UIF

| | | |
|---------------------------------|--------------|--------------|
| Opening balance | - | 1 245 410 |
| Current year subscription / fee | 16 559 876 | 17 597 557 |
| Amount paid - current year | (16 559 876) | (17 597 557) |
| Amount paid - previous years | - | (1 245 410) |
| | - | - |

Pension and Medical Aid Deductions

| | | |
|---------------------------------|--------------|------------------|
| Opening balance | 1 510 707 | 414 674 |
| Current year subscription / fee | 19 227 104 | 17 498 062 |
| Amount paid - current year | (19 227 104) | (15 987 355) |
| Amount paid - previous years | (1 510 707) | (414 674) |
| | - | 1 510 707 |

VAT

| | | |
|----------------------------|-------------|-----------|
| VAT receivable/ (payables) | (2 348 529) | 1 369 760 |
|----------------------------|-------------|-----------|

VAT output payables and VAT input receivables are shown above.

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

Councillors' arrear consumer accounts

No councillors had arrear accounts outstanding for more than 90 days at 30 June 2020 and 30 June 2021.

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52. 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.

Section 36 Deviations

| | | |
|---|------------------|----------------|
| Pongola FM (Sole service provider) | - | 3 200 |
| Nongoma FM (Sole service provider) | - | 3 200 |
| Tantsi Fire Training (Sole service provider) | - | 94 800 |
| BEE 1 Security services (Impractical to follow SCM process) | - | 35 000 |
| Truvello Manufacturers (Sole service provider) | - | 14 589 |
| IT Ensure services (Sole service provider) | - | 4 942 |
| Junk Shop (Emergency) | - | 13 773 |
| Nonyamazane General Services (Emergency) | - | 190 500 |
| Outpost Trading services (Sole service provider) | - | 68 000 |
| Neffcorn Roadtech (Sole service provider) | - | 18 538 |
| Outpost Trading Enterprise (Emergency) | - | 68 000 |
| Outpost Trading Enterprise (Emergency) | - | 28 500 |
| Junk Shop (Emergency) | - | 20 058 |
| Junk Shop (Emergency) | - | 3 977 |
| Terlablanche Engineering (Sole service provider) | - | 40 499 |
| Terlablanche Engineering (Sole service provider) | - | 17 000 |
| Bidvest Waltons (Sole service provider) | - | 6 403 |
| M&C Software Solutions (Emergency) | - | 68 873 |
| Government Printing Works (Sole service provider) | - | 97 245 |
| DLV Engineers (Emergency) | 5 825 000 | - |
| Quantum Sphere (Sole service provider) | 153 860 | - |
| Risk Management (Pty) Ltd (Emergency) | 27 430 | - |
| Lancet Laboratories (Emergency) | 242 250 | - |
| Shangulani (Pty) Ltd (Emergency) | 7 000 | - |
| Lithotec (Sole service provider) | 8 177 | - |
| Neffcon Roadtech (Impractical to follow SCM process) | 18 538 | - |
| Terblanche Engineering (Sole supplier) | 67 500 | - |
| Ntshangase General supplies (Emergency) | 22 000 | - |
| Truvelo manufacturers (Sole service provider) | 10 527 | - |
| Nuprint Printers (Sole supplier) | 4 813 | - |
| Payday System (Sole supplier) | 8 050 | - |
| Mavandla Projects (Acquisition of special works) | 35 000 | - |
| International Safety Equipment (Sole supplier) | 7 850 | - |
| Truvelo Manufactures (Emergency) | 14 384 | - |
| Junk Shop (Emergency) | 316 708 | - |
| Junk Shop (Emergency) | 297 636 | - |
| Junk Shop (Emergency) | 188 570 | - |
| Junk Shop (Emergency) | 167 465 | - |
| Junk Shop (Emergency) | 180 579 | - |
| SNF Engineering & Trading (Emergency) | 181 305 | - |
| | 7 784 642 | 797 097 |

53. Budget differences

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53. Budget differences (continued)

Material differences between budget and actual amounts

Material differences was considered for variances above 10% in the budget statement.

Revenue

Service charges: The municipal billing on electricity is more than what was anticipated at the time of preparing the adjustment budget, even though the budget was increased.

Operational revenue: The municipality received less income due to Covid-19 lockdown regulations.

Gain on disposal of assets: The municipality made a loss upon disposal of assets.

Property rates: They have decreased due to supplementary role that was implemented after the adjustment budget.

Traffic fines: The municipality anticipated more on traffic fines which led to a variance, which was mainly caused by Covid-19 lockdown regulations.

Expenditure

Finance charges: They have increased due to an early settlement of WesBank loan in the current year.

Debt impairment: The impairment reduced due to improved collection on debtors.

Transfers and Subsidies: The spending decreased than anticipated due to Covid-19 lockdown regulations.

Loss on disposal of assets: The municipality incurred an increased loss on sale of assets more than the one anticipated.

Actuarial loss: The municipality did not anticipate on having actuarial losses.

Fair Value Adjustment: The municipality did not anticipate on having fair value adjustment.