



Polokwane Local Municipality  
Audited Annual Financial Statements  
for the year ended 30 June 2023

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

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# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## General Information

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<b>Country of incorporation and domicile</b>	South Africa
<b>Legal form of entity</b>	Municipality in terms of Section 1 of the Local Government: Municipal Structures Act (Act 117 of 1998) read with Section 155 (1) of the Constitution of the Republic of South Africa (Act 108 of 1996)
<b>Nature of business and principal activities</b>	The provision of services (electricity, water, sanitation and refuse) to communities in a sustainable manner, to promote social and economic development; and to promote a safe and healthy environment.
<b>Legislation governing the municipality's operations</b>	The Constitution of the Republic of South Africa, 1996 The Local Government: Municipal Structures Act, 1998 (Act 117 of 1998) The Local Government: Municipal Systems Act, 2000 (Act 32 of 2000) The Local Government: Municipal Finance Management Act, 2003 (Act 56 of 2003) Local Government: Municipal Property Rates Act, 2004 (Act 6 of 2004) Municipal Fiscal Powers and Functions Act, 2007 (Act 12 of 2007) Local Government: Municipal Demarcation Act, 1998 (Act 27 of 1998) Intergovernmental Relations Framework Act, 2005 (Act 13 of 2005) Division of Revenue Act (Act 1 of 2007)
<b>Executive mayor and chairperson of mayoral committee</b>	
<b>Portfolio</b>	<b>Councillor</b>
Honourable Mayor and chairperson of mayoral committee	MJ Mpe
Speaker	KW Modiba
Chief WIP	PA Rapetswa
MMC Finance	T Nkwe
MMC Water and Sanitation	MA Moakamedi
MMC Roads, Transport and Stormwater	MK Kgare
MMC LED, Land use and Spatial Planning	PR Mashangoane
MMC Admin and Governance	FZ Mashalane
MMC Housing	J Pemma
MMC Sports, Arts, Culture and Special Focus	TJ Mamabolo
MMC Energy Provision	TD Moloto
MMC Waste and Environment	SJ Malope
MMC Community Services	RV Shadung

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## General Information

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### Council Members

Nr	Surname	Initials	Nr	Surname	Initials
1	Baloyi	KJ	2	Bologo	N
3	Botha	AH	4	Chidi	TDR
5	Choshi	PP	6	Clarke	S
7	Dikgale	SJ	8	Hamise	HL
9	Hiine	PJ	10	Hopane	ME
11	Joubert	FJ	12	Kalla	SSMG
13	Kganyago	SM	14	Komape	MP
15	Leballo	MM	16	Lebogo	MJ***
17	Legodi	NP	18	Lephalala	LF
19	Letsoalo	MF**	20	Lourens	RF
21	Lubbe	H	22	Mabasa	WM
23	Mabote	MG	24	Mahladisa	MJ***
25	Mahlatji	MS	26	Mahopo	MS
27	Mailula	KE	28	Makhafola	MD
29	Malatji	KM	30	Malope	SJ
31	Mamadi	E	32	Marx	HF
33	Mashabela	AS	34	Matoho	K
35	Mathye	MV	36	Matonzi	MT
37	Modiba	MD	38	Modiba	MT
39	Mogoboya	ML	40	Mohlapamaswi	E
41	Mahloana	TK	42	Mokgohloa	TS
43	Mokobodi	MV	44	Mokome	MS
45	Molepo	FJ	46	Malope	MM
47	Moloto	MH	48	Morifi	TJ
49	Morotoba	FM	50	Moshoeu	PE
51	Mothapo	M	52	Mothiba	TP
53	Mphelo	MD	54	Murwa	TPK
55	Muthabine	MR	56	Nchabeleng	MM
57	Ngoasheng	LH	58	Ntlemo	TJ
59	Pheedi	MR	60	Phoshoko	MS
61	Phukubje	D	62	Pretorius	M
63	Radise	CM	64	Ralefatane	MR
65	Ramakgolo	MM	66	Ramaphakela	MF
67	Ramaselele	MS	68	Ramoraswi	MJ
69	Raphela	MP	70	Ratsoma	M
73	Retters	HJ	74	Sathekge	MW***
75	Sebati	SA	76	Segoale	ML
77	Seshoka	JS*	78	Shadung	MA
79	Shibambu	KB	80	Shivhabu	NA
81	Malebana	CC^^	82	Mohlabeng	DM^^
83	Mothapo	JE^^	84	Photo	RD^^^
85	Raphela	TR^			

\*Councillors who have been sworn in during February 2023.

\*\*Councillors who have been sworn in on 15 May 2023.

\*\*\*Councillors who have been sworn in on 23 June 2023.

^Councillors who have ceased to hold office on 18 April 2023. | ^^Councillors who have ceased to hold office on 19 June 2023

^^^Councillor deceased during October 2022.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## General Information

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### Executive management

<b>Position</b>	<b>Name</b>
Municipal Manager	TLP Nemugumoni
Chief Financial Officer	N Essa
Deputy Chief Financial Officer	T Nonyane
Director Planning and Economic Development	M Mashego
Director Community Services	E Hutamo
Acting Director Corporate and Shared Services	PD Matsi
Acting Director Strategic Planning, Monitoring and Evaluation	V Mthombeni
Acting Director Transportation Services	D Ramakgwakgwa
Director Energy Services	J Fourie
Acting Director Water and Sanitation	M Thaba

### Members of the Audit Committee

Chairperson	SAB Ngobeni
Member	R Maboe
Member	TA Lekoloane
Member	KA Mabitsela
Member	MD Mogano

**Accounting Officer** TLP Nemugumoni

**Chief Financial Officer (CFO)** N Essa

**Executive Mayor** M.J Mpe

**Grading of local authority** 10

**Business address** Civic Centre  
Cnr Landros Mare and Bodenstein Streets  
Polokwane  
0699

**Postal address** P.O. Box 111  
Polokwane  
0700

**Attorneys** Pule Incorporated  
Mogaswa Attorneys  
AM Carrim Attorneys  
Maboku Mangena Attorneys  
Kgatla Incorporated  
Matabane Incorporated  
Noko Maimela Incorporated  
Rachoeane Attorneys  
Mohale Incorporated  
Popela Maake Incorporated

**Telephone** 015 023 5000

**Bankers** Standard Bank

**Auditors** Auditor-General of South Africa (AGSA)

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Abbreviations

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AARTO	Administrative Adjudication Of Road Traffic Offences
CIGFARO	Chartered Institute of Government, Finance, Audit and Risk Officers
CDM	Capricorn District Municipality
CPI	Consumer Price Index
DBSA	Development Bank of South Africa
EEDSM	Energy Efficiency and Demand Side Management
EPWP	Expanded Public Works Programme
FMG	Finance Management Grant
GFS	Government Finance Statistics
GRAP	Generally Recognised Accounting Practice
INEP	Integrated National Electrification Programme
IT	Information Technology
IUDG	Integrated Urban Development Grant
JSE	Johannesburg Stock Exchange
MBA	Master of Business Administration
MFMA	Municipal Finance Management Act
MMC	Member of Mayoral Committee
MPAC	Municipal Public Accounts Committee
MSCOA	Municipal Standard Chart of Accounts
NDPG	Neighbourhood Development and Partnership Grant
NRA	Normal Retirement Age
PAYE	Pay as Your Earn
PHA	Polokwane Housing Association
PPE	Property, Plant and Equipment
PTNG	Public Transport Network Grant
RBIG	Regional Bulk Infrastructure Grant
RSA	Republic of South Africa
SACNASP	South African Council for Natural Scientific Professions
SAIEES	Southern African Institute of Ecologists and Environmental Scientists
SETA	Sector Education and Training Authority
SDL	Skills Development Levy
SALGA	South African Local Government Association

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Abbreviations

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SARS	South African Revenue Services
SCM	Supply Chain Management
UIF	Unemployment Insurance Fund
VAT	Value Added Tax
WSIG	Water Service Infrastructure Grant

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the audited annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the audited 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 audited annual financial statements and was given unrestricted access to all financial records and related data.

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

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

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

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

I certify that the salaries, allowances and benefits of councillors as disclosed in Note 37 to these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution of the Republic of South Africa, read with the Remuneration of Public Office Bearers Act, Act 20 of 1998 and the Minister of Provincial and Local Government's determination in accordance with the Act.

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**Thuso Nemugumoni**  
**Municipal Manager**



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Officer's Report

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The accounting officer submits her report for the year ended 30 June 2023.

### 1. Review of activities

#### Main business and operations

The municipality is engaged in local government activities, which include planning and promotion of integrated development plan and supplying of the services to the community which are water, sanitation, fire and environmental health services.

Net deficit of the municipality was R 326 848 516 (2022: deficit R 312 757 307).

### 2. Going concern

We draw attention to the fact that at 30 June 2023, the municipality had an accumulated surplus of R 5 268 365 211 and that the municipality's total assets exceed its liabilities by R15 762 766 590.

The audited 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. All impairments were measured and judged in line with past performances.

### 3. Subsequent events

The accounting officer is not aware of any matter or circumstance arising since the end of the financial year, that may need to be adjusted for or disclosed in the Financial Statements. The Chief Financial Officer, Naazim Essa resigned on the 30th August 2023.

The audited annual financial statements set out on pages 9 to 123, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2023 and were signed on its behalf by:

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**Thuso Nemugumoni**  
Municipal Manager

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Statement of Financial Position as at 30 June 2023

Figures in Rand	Note(s)	2023	2022
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	3	184 371 391	232 670 007
Receivables from exchange transactions	4	723 147 192	796 823 669
Other receivables from exchange transactions	5	33 748 015	31 136 848
Receivables from non-exchange transactions	6	346 399 818	295 294 041
Inventories	7	93 995 322	122 652 833
VAT receivable	8	45 397 113	14 896 268
VAT Input Accrual		92 221 762	108 169 344
		<b>1 519 280 613</b>	<b>1 601 643 010</b>
<b>Non-Current Assets</b>			
Investment property	9	994 131 414	961 287 293
Property, plant and equipment	10	14 679 379 626	12 593 252 488
Biological assets	11	14 905 421	14 872 363
Heritage assets	12	21 867 568	21 867 568
Intangible assets	13	35 093 576	38 578 911
Investment in subsidiary	14	1 000	1 000
Living resources	16	9 368 462	5 912 645
		<b>15 754 747 067</b>	<b>13 635 772 268</b>
<b>Total Assets</b>		<b>17 274 027 680</b>	<b>15 237 415 278</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Consumer deposits	17	66 794 150	67 346 075
Trade and other payables	18	613 278 176	829 062 586
Payables from non-exchange transactions	19	25 771 966	155 808 221
Borrowings	20	25 088 400	22 587 835
Finance Lease liabilities	21	21 052 712	8 215 040
Provisions	22	-	10 504 499
Employee benefits	23	9 116 740	11 902 119
VAT Output Accrual		135 527 215	137 432 402
		<b>896 629 359</b>	<b>1 242 858 777</b>
<b>Non-Current Liabilities</b>			
Borrowings	20	347 688 492	372 776 892
Finance Lease liabilities	21	4 576 739	14 569 432
Provisions	22	117 269 606	123 129 315
Employee benefits	23	397 144 611	405 586 008
		<b>866 679 448</b>	<b>916 061 647</b>
<b>Total Liabilities</b>		<b>1 763 308 807</b>	<b>2 158 920 424</b>
<b>Net Assets</b>		<b>15 510 718 873</b>	<b>13 078 494 854</b>
<b>Net assets presented by:</b>			
Revaluation Reserve	24	10 242 353 680	7 483 281 096
Accumulated surplus		5 268 365 211	5 595 213 747
<b>Total Net Assets</b>		<b>15 510 718 891</b>	<b>13 078 494 843</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Statement of Financial Performance

Figures in Rand	Note(s)	2023	2022
<b>Revenue</b>			
<b>Exchange Revenue</b>			
Services charges - Electricity	29	1 180 205 665	1 217 848 859
Services charges - Waste management	29	141 795 082	145 805 596
Services charges - Waste water management	29	156 210 029	163 146 829
Services charges - Water	29	264 634 375	288 397 039
Rental	30	34 557 460	28 617 938
Interests on investments	31	38 814 996	9 640 821
Interest earned from receivables	28	75 516 570	42 220 304
Licences or permits	32.1	13 788 739	13 494 592
Agency services	33	23 554 336	21 865 224
Operational revenue	34	41 536 510	3 963 751
Sales of goods and rendering of services	35	26 360 476	21 251 054
<b>Total Exchange Revenue</b>		<b>1 996 974 238</b>	<b>1 956 252 007</b>
<b>Non-Exchange Revenue</b>			
Property rates	25	573 341 488	528 048 588
Transfers and subsidies	26	2 016 138 370	1 871 344 458
Fines, penalties and forfeits	27	42 451 266	31 864 937
Interest earned from receivables	28	40 925 649	28 231 142
<b>Total Non-Exchange Revenue</b>		<b>2 672 856 773</b>	<b>2 459 489 125</b>
<b>Total Revenue</b>		<b>4 669 831 011</b>	<b>4 415 741 132</b>
<b>Expenditure</b>			
Employee related cost	36	1 072 016 183	1 026 750 358
Remuneration of councillors	37	41 383 620	39 349 489
Bad Debts Written Off	38	324 015 241	199 542 544
Depreciation and amortisation	39	723 166 105	762 176 405
Finance costs	40	57 837 288	59 736 932
Bulk purchases	41	856 611 259	878 180 154
Inventory consumed	42	225 856 708	254 051 865
Contracted services	43	840 315 341	1 004 312 682
Government grants and subsidies	44	9 671 404	45 240 000
Operational cost	45	258 345 313	239 559 789
<b>Total Expenditure</b>		<b>4 409 218 462</b>	<b>4 508 900 218</b>
<b>Operating Surplus (deficit)</b>		<b>260 612 549</b>	<b>(93 159 086)</b>
Gain/(losses) on assets	46	(583 009 739)	(68 287 563)
Fair value adjustments	47	114 834 361	(16 671 055)
Inventories (write-down)	48	(88 136 885)	(116 111 663)
Impairment losses	49	(31 148 802)	(18 527 940)
<b>Deficit for the year</b>		<b>(326 848 516)</b>	<b>(312 757 307)</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Statement of changes in net assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
Opening balance as previously reported	7 625 185 397	5 767 305 366	13 392 490 763
Adjustments			
Correction of errors	(55 224 804)	140 665 688	85 440 884
<b>Balance at 01 July 2021 as restated*</b>	<b>7 569 960 593</b>	<b>5 907 971 054</b>	<b>13 477 931 647</b>
Surplus/(Deficit) for the year	-	(312 757 307)	(312 757 307)
Increase in revaluation reserve	(86 679 497)	-	(86 679 497)
Total changes	(86 679 497)	(312 757 307)	(399 436 804)
<b>Balance at 01 July 2022 as restated*</b>	<b>7 483 281 095</b>	<b>5 595 213 727</b>	<b>13 078 494 822</b>
Surplus/(Deficit) for the year	-	(326 848 516)	(326 848 516)
Increase in revaluation reserve	2 759 072 585	-	2 759 072 585
Total changes	2 759 072 585	(326 848 516)	2 432 224 069
<b>Balance at 30 June 2023</b>	<b>10 242 353 680</b>	<b>5 268 365 211</b>	<b>15 510 718 891</b>
Note(s)	24		

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Cash Flow Statement

Figures in Rand	Note(s)	2023	2022
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Cash receipts from customers		2 245 587 845	2 154 908 023
Transfers and Subsidies		1 886 102 116	1 946 615 086
Interest		37 479 150	9 640 821
<b>Payments</b>			
Suppliers and employees		(3 499 283 941)	(3 519 577 496)
Finance charges		(46 073 292)	(59 736 932)
<b>Net cash from(used) operating activities</b>	51	<b>623 811 878</b>	<b>531 849 502</b>
<b>Cash flows from investing activities</b>			
<b>Receipts</b>			
Proceeds on disposal of fixed and intangible assets		560 588	-
<b>Payments</b>			
Capital assets		(639 967 887)	(570 508 003)
<b>Net cash flows from investing activities</b>		<b>(639 407 299)</b>	<b>(570 508 003)</b>
<b>Cash flows from financing activities</b>			
<b>Payments</b>			
Decrease in borrowing long-term		(22 587 835)	(20 076 910)
Decrease in finance lease		(10 115 360)	(9 749 350)
<b>Net cash flows from financing activities</b>		<b>(32 703 195)</b>	<b>(29 826 260)</b>
<b>Net increase/(decrease) in cash</b>		<b>(48 298 616)</b>	<b>(68 484 761)</b>
Cash and cash equivalents at year begin		232 670 007	301 154 768
<b>Cash and cash equivalents at year end</b>		<b>184 371 391</b>	<b>232 670 007</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis						
	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Statement of Financial Performance</b>						
<b>Revenue</b>						
<b>Revenue from non-exchange transactions</b>						
Fines, penalties and forfeits	40 161 631	-	40 161 631	42 451 266	2 289 635	BD1
Licences or permits	421 411	-	421 411	-	(421 411)	BD2
Property rates	587 175 644	-	587 175 644	573 341 488	(13 834 156)	BD1
Government grants and subsidies	2 156 803 000	(119 790 640)	2 037 012 360	2 016 138 370	(20 873 990)	BD1
Interest, dividend and rent on land	21 321 376	-	21 321 376	40 925 649	19 604 273	BD3
<b>Total revenue from non-exchange transactions</b>	<b>2 805 883 062</b>	<b>(119 790 640)</b>	<b>2 686 092 422</b>	<b>2 672 856 773</b>	<b>(13 235 649)</b>	
<b>Revenue from exchange transactions</b>						
Agency services	30 442 756	-	30 442 756	23 554 336	(6 888 420)	BD4
Interest on investments	20 000 000	-	20 000 000	38 814 996	18 814 996	BD5
Interest earned from receivables	85 285 503	-	85 285 503	75 516 570	(9 768 933)	BD6
Operational revenue	37 288 320	-	37 288 320	41 536 510	4 248 190	BD7
Rental from Fixed Assets	11 950 240	-	11 950 240	34 557 460	22 607 220	BD8
Sales of goods and rendering of services	13 549 771	-	13 549 771	26 360 476	12 810 705	BD9
Services charges - Electricity	1 556 068 914	-	1 556 068 914	1 180 205 665	(375 863 249)	BD10
Services charges - Waste management	133 622 947	-	133 622 947	141 795 082	8 172 135	BD1
Services charges - Waste water management	138 979 993	-	138 979 993	156 210 029	17 230 036	BD11
Services charges - Water	299 859 872	-	299 859 872	264 634 375	(35 225 497)	BD12
Licences or permits	13 465 044	-	13 465 044	13 788 739	323 695	BD1
<b>Total revenue from exchange transactions</b>	<b>2 340 513 360</b>	<b>-</b>	<b>2 340 513 360</b>	<b>1 996 974 238</b>	<b>(343 539 122)</b>	
<b>Total revenue</b>	<b>5 146 396 422</b>	<b>(119 790 640)</b>	<b>5 026 605 782</b>	<b>4 669 831 011</b>	<b>(356 774 771)</b>	
<b>Expenditure</b>						
Bad debts written off	(260 000 000)	(4 524 017)	(264 524 017)	(324 015 241)	(59 491 224)	BD13
Bulk purchases	(976 579 780)	113 513 059	(863 066 721)	(856 611 259)	6 455 462	BD1
Contracted services	(871 101 498)	31 025 981	(840 075 517)	(840 315 341)	(239 824)	BD1
Depreciation and amortisation	(260 000 002)	(184 396 176)	(444 396 178)	(723 166 105)	(278 769 927)	BD14
Employee related costs	(1 167 116 768)	38 296 244	(1 128 820 524)	(1 072 016 183)	56 804 341	BD1
Finance costs	(42 336 217)	(15 501 072)	(57 837 289)	(57 837 288)	1	BD1
Inventory consumed	(307 541 119)	80 499 629	(227 041 490)	(225 856 708)	1 184 782	BD15
Remuneration of councillors	(41 916 643)	533 022	(41 383 621)	(41 383 620)	1	BD1
Operational cost	(264 437 961)	(65 366 666)	(329 804 627)	(258 345 313)	71 459 314	BD16
Transfers and subsidies	(17 000 000)	5 900 000	(11 100 000)	(9 671 404)	1 428 596	BD17
<b>Total expenditure</b>	<b>(4 208 029 988)</b>	<b>(19 996)</b>	<b>(4 208 049 984)</b>	<b>(4 409 218 462)</b>	<b>(201 168 478)</b>	
<b>Operating surplus</b>	<b>938 366 434</b>	<b>(119 810 636)</b>	<b>818 555 798</b>	<b>260 612 549</b>	<b>(557 943 249)</b>	
Gains/(Losses) on disposal of assets	-	-	-	(583 009 739)	(583 009 739)	
Fair value adjustments	-	-	-	114 834 361	114 834 361	

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Statement of Comparison of Budget and Actual Amounts

### Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
Inventories (write-down)	-	-	-	(88 136 885)	(88 136 885)	
Impairment losses	-	-	-	(31 148 802)	(31 148 802)	
	-	-	-	(587 461 065)	(587 461 065)	
<b>Deficit before taxation</b>	<b>938 366 434</b>	<b>(119 810 636)</b>	<b>818 555 798</b>	<b>(326 848 516)</b>	<b>(1 145 404 314)</b>	
<b>Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement</b>	<b>938 366 434</b>	<b>(119 810 636)</b>	<b>818 555 798</b>	<b>(326 848 516)</b>	<b>(1 145 404 314)</b>	

### Statement of Financial Position

#### Assets

##### Current Assets

Cash and cash equivalents	359 027 033	(93 442 354)	<b>265 584 679</b>	184 371 391	(81 213 288)	BD18
Consumer debtors	521 627 881	-	<b>521 627 881</b>	1 069 547 010	<b>547 919 129</b>	BD19
Other debtors	66 000 000	-	<b>66 000 000</b>	171 366 890	<b>105 366 890</b>	BD1
Inventories	66 000 000	1 458 579	<b>67 458 579</b>	93 995 322	<b>26 536 743</b>	BD20
	<b>1 012 654 914</b>	<b>(91 983 775)</b>	<b>920 671 139</b>	<b>1 519 280 613</b>	<b>598 609 474</b>	

##### Non-Current Assets

Biological assets	11 833 140	-	<b>11 833 140</b>	14 905 421	<b>3 072 281</b>	BD21
Intangible assets	24 883 052	100 000	<b>24 983 052</b>	35 093 576	<b>10 110 524</b>	BD22
Investment in subsidiary	1 000	-	<b>1 000</b>	1 000	-	
Investment property	730 892 499	(172 328)	<b>730 720 171</b>	994 131 414	<b>263 411 243</b>	BD23
Property, plant and equipment	17 326 482 572	(122 702 586)	<b>17 203 779 986</b>	14 710 615 656	<b>(2 493 164 330)</b>	BD24
	<b>18 094 092 263</b>	<b>(122 774 914)</b>	<b>17 971 317 349</b>	<b>15 754 747 067</b>	<b>(2 216 570 282)</b>	

#### Total Assets

**19 106 747 177 (214 758 689) 18 891 988 488 17 274 027 680 (1 617 960 808)**

#### Liabilities

##### Current Liabilities

Consumer deposits	70 565 261	-	<b>70 565 261</b>	66 794 150	(3 771 111)	BD1
Trade and other payables	811 813 625	(150 832 652)	<b>660 980 973</b>	804 746 809	<b>143 765 836</b>	BD1
Borrowings	22 587 835	-	<b>22 587 835</b>	25 088 400	<b>2 500 565</b>	BD25
Provisions	10 277 842	-	<b>10 277 842</b>	-	(10 277 842)	BD26
	<b>915 244 563</b>	<b>(150 832 652)</b>	<b>764 411 911</b>	<b>896 629 359</b>	<b>132 217 448</b>	

##### Non-Current Liabilities

Borrowings	351 198 722	-	<b>351 198 722</b>	352 265 231	<b>1 066 509</b>	BD1
Provisions	419 067 578	-	<b>419 067 578</b>	514 414 215	<b>95 346 637</b>	BD27
	<b>770 266 300</b>	-	<b>770 266 300</b>	<b>866 679 446</b>	<b>96 413 146</b>	

#### Total Liabilities

**1 685 510 863 (150 832 652) 1 534 678 211 1 763 308 805 228 630 594**

#### Net Assets

**17 421 236 314 (63 926 037) 17 357 310 277 15 510 718 875 (1 846 591 402)**

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

	Approved budget	Adjustments	Final Budget	Actual amounts on comparable basis	Difference between final budget and actual	Reference
Figures in Rand						
<b>Net Assets</b>						
<b>Net Assets Attributable to Owners of Controlling Entity</b>						
<b>Reserves</b>						
Revaluation Reserve	10 302 713 865		- 10 302 713 865	10 242 353 680	(60 360 185)	BD1
Accumulated surplus	7 118 522 439	(63 926 684)	7 054 595 755	5 268 365 211	(1 786 230 544)	
<b>Total Net Assets</b>	<b>17 421 236 304</b>	<b>(63 926 684)</b>	<b>17 357 309 620</b>	<b>15 510 718 891</b>	<b>(1 846 590 729)</b>	

### Cash Flow Statement

#### Cash flows from operating activities

##### Receipts

Sale of goods and services	2 906 087 480		- 2 906 087 480	2 245 587 845	(660 499 635)	CF2
Grants	2 156 803 000	(119 790 000)	2 037 013 000	1 886 102 116	(150 910 884)	CF1
Interest income	20 000 000		- 20 000 000	37 479 150	17 479 150	CF3
	<b>5 082 890 480</b>	<b>(119 790 000)</b>	<b>4 963 100 480</b>	<b>4 169 169 111</b>	<b>(793 931 369)</b>	

##### Payments

Suppliers and employees	(3 911 546 521)	(159 113 584)	(4 070 660 105)	(3 499 283 941)	571 376 164	CF4
Finance charges	(40 219 406)	(190 000)	(40 409 406)	(46 073 292)	(5 663 886)	CF5
	<b>(3 951 765 927)</b>	<b>(159 303 584)</b>	<b>(4 111 069 511)</b>	<b>(3 545 357 233)</b>	<b>565 712 278</b>	

**Net cash flows from operating activities** 1 131 124 553 (279 093 584) 852 030 969 623 811 878 (228 219 091)

#### Cash flows from investing activities

Proceeds on disposal of Property, plant and equipment				560 588	560 588	CF6
Purchases of capital assets	(926 295 739)	129 767 277	(796 528 462)	(639 967 887)	156 560 575	CF7
<b>Net cash flows from investing activities</b>	<b>(926 295 739)</b>	<b>129 767 277</b>	<b>(796 528 462)</b>	<b>(639 407 299)</b>	<b>157 121 163</b>	

#### Cash flows from financing activities

Repayment of borrowing	(22 587 835)		(22 587 835)	(32 703 195)	(10 115 360)	CF8
Net increase/(decrease) in cash and cash equivalents	182 240 979	(149 326 307)	32 914 672	(48 298 616)	(81 213 288)	CF9
Cash and cash equivalents at the beginning of the year	176 786 054	55 883 953	232 670 007	232 670 007	-	
<b>Cash and cash equivalents at the end of the year</b>	<b>359 027 033</b>	<b>(93 442 354)</b>	<b>265 584 679</b>	<b>184 371 391</b>	<b>(81 213 288)</b>	

For explanation of material differences, refer to Annexure "Statement versus Actual"



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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

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

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

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

These accounting policies are consistent with the previous period.

### 1. Summary of significant accounting policies

#### 1.1 Presentation currency

These audited annual financial statements are presented in South African Rand, which is the functional currency of the municipality and all values are rounded to the nearest rand.

#### 1.2 Going concern assumption

These audited annual financial statements were 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 Materiality

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

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

#### 1.4 Comparative figures

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

Where material accounting errors, which relate to prior periods, have been identified in the current 9 months, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

The presentation and classification of items in the current year is consistent with prior periods.

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

In preparing the audited annual financial statements, management is required to make estimates and assumptions that affect the amounts represented in the audited 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 audited annual financial statements. Significant judgements include:

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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

#### Receivables

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

The impairment for trade receivables, held to maturity investments and loans and receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

#### Allowance for slow moving, damaged and obsolete stock

An allowance for stock to write stock down to the lower of cost or net realisable value. Management have made estimates of the selling price and direct cost to sell on certain inventory items. The write down is included in the operation surplus note.

#### Fair value estimation

The fair value of financial instruments traded in active markets (such as trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

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

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of cash generating assets when events in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the discounted cash-flow projection assumption may change, which may then impact our estimations, and may then require a material adjustment to the carrying value of assets.

Expected future cash flows used to determine the value in use of assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors such as exchange rates, inflation and interest.

#### Provisions

Provisions were raised and management determined an estimate based on the information available. The provision is discounted when the time value of money is material. Additional disclosure of these estimates of provisions are included in note 22 and 23 - Provisions

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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

#### Post-retirement benefits

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

The municipality determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the post retirement and long term benefit obligations. In determining the appropriate discount rate, the municipality considers the market yields at the reporting date on government bonds. Where there is no deep market in the government bonds with a sufficiently long maturity to match the estimated maturity of all the benefits paid, the municipality uses current market rates of the appropriate term to discount shorter payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.

Other key assumptions for post retirement and other long-term obligations are based on current market conditions. Additional information is disclosed in Note 23.

#### Effective interest rate

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

#### Allowance for doubtful debts

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

In the application of the municipality's accounting policies, which are described below, management is required to make judgement, estimates and assumption that affect the reported amounts of revenues, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the end of the reporting period. The estimates and associated assumptions are based on historical experiences and other factors that are considered too reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

#### Service charges

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. The municipality council approved consumption estimates based on estimates which is used where the inaccessible meters does not have history that could be substantiated. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

### 1.6 Biological assets that form part of an agricultural activity

A biological asset is a living animal or plant that is used by the municipality in an agricultural activity to attain agricultural produce, the harvested product of the municipality's biological assets.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.6 Biological assets that form part of an agricultural activity (continued)

#### Initial and subsequent measurement

Biological assets and agricultural produce are initially and subsequently measured at their fair value less estimated point-of-sale costs and agricultural produce harvested from the municipality's biological assets are measured at their fair value less estimated point-of-sale costs at the point of harvest.

Where biological assets and agricultural produce are acquired for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Point-of-sale costs include commissions to brokers and dealers, levies by regulatory agencies and commodity exchanges, transfer taxes and duties but exclude transport and other costs necessary to get the assets to a market.

The fair value of biological assets is estimated by reference to the market prices. The fair value of the plantations is based on the combined fair value of the land and the trees. The fair value of the raw land and land improvements is then deducted from the combined fair value to determine the fair value of the trees.

A gain or loss arising on initial recognition of biological assets at fair value less estimated point-of-sale costs and from a change in the fair value less estimated point-of-sale costs is included in surplus or deficit for the period in which it arises. A gain or loss arising on initial recognition of agricultural produce at fair value less estimated point-of-sale costs is included in surplus or deficit for the period in which it arises.

Where market determined prices or values are not available, the present value of the expected net cash inflows from the asset, discounted at a current market-determined pre-tax rate is used to determine fair value.

Where fair value cannot be measured reliably, biological assets are measured at cost less any accumulated depreciation and any accumulated impairment losses.

#### Derecognition

Biological assets are derecognised when the municipality disposes thereof or when it is no longer probable that future economic benefits or service potential will be generated from the biological assets. Any gain or loss that arises at the point of derecognition is recognised in the Statement of financial performance at the point of derecognition.

### 1.7 Investment property

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

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

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

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

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

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

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

The cost of self-constructed investment property is the cost at date of completion.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.7 Investment property (continued)

Transfers are made to and or from investment property only when there is a change in use. For a transfer from investment property to owner occupied (property, plant and equipment) the deemed cost for subsequent accounting is the fair value at the date of change in use. If owner occupied property becomes an investment property, the entity accounts for such property in accordance with the policy stated under property, plant and equipment up to date of change in use

#### Initial recognition

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

#### Subsequent measurement – fair value model

Subsequent to initial measurement investment property is measured at fair value. This entails determining the fair value of the investment property on a regular basis. To the extent that the fair value model is applied investment property is not depreciated.

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

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable, or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on property, plant, and equipment.

#### Derecognition/Disposal

Investment properties are derecognised (eliminated from the Statement of financial position) on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal. The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of financial performance.

### 1.8 Property, plant and equipment

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

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

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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

#### Initial recognition and measurement

Property, plant and equipment are initially recognised at cost on its acquisition date. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

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

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset 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.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

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

#### Subsequent measurement – cost model

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all movable and leased assets are measured at cost, less accumulated depreciation and accumulated impairment losses.

#### Subsequent measurement – revaluation model

Subsequent to initial recognition, Infrastructure assets and community assets are carried at a revalued amount based on municipal valuations, less any subsequent accumulated depreciation and subsequent accumulated impairment losses; whilst land is carried at a revalued amount based on municipal valuations, less subsequent accumulated impairment losses. Revaluations are performed by external independent values every three years to coincide with the implementation of the general valuation such that the carrying amount does not differ materially from that which would be determined using fair value at the Statement of financial position date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

An increase in the carrying amount of land and buildings as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

When revalued assets are sold or retired, the amounts included in the revaluation reserve in respect of that assets, are transferred to accumulated surplus or deficit.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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

#### Depreciation

Land is not depreciated as it is regarded as having an unlimited life. Depreciation on assets other than land is calculated using the straight line method, to allocate their cost or revalued amounts less their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the assets' future economic benefits or service potential are expected to be consumed by the municipality. 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 rates are based on the following estimated useful lives:

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Item	Depreciation method	Average useful life
Land	Straight-line	Indefinite
Office equipment	Straight-line	3 - 10 years
IT equipment	Straight-line	3 - 7 years
Infrastructure	Straight-line	3 - 100 years
Community assets	Straight-line	5 - 100 years
Other property, plant and equipment	Straight-line	2 - 15 years

The estimated useful life, residual values and depreciation method are assessed at each reporting date on an indicator basis.

The useful lives, residual values and depreciation method are reviewed annually at the end of the financial year where there is any indication that the municipality's expectations about the residual amount and the useful life of an asset has changed since the preceding reporting date. Any adjustments arising from the annual review are applied prospectively.

Depreciation of an asset commences when the asset is ready for its intended use. Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets, or, where shorter, the term of the relevant lease. The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is ready for use.

#### Derecognition

The carrying amount of an item of property, plant and equipment is 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 an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue.

Gains or losses are calculated as the difference between the carrying values of assets (Cost less accumulated depreciation and accumulated impairment losses) and the disposal proceeds is included in the Statement of financial performance as a gain or loss on disposal of property, plant and equipment.

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

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or surplus when the compensation becomes receivable.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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

#### Site rehabilitation and restoration costs

Where the municipality has an obligation to rehabilitate and restore items of property, plant and equipment such obligations are referred to as "rehabilitation provisions". The cost of an item of property, plant and equipment includes the initial estimate of the costs of rehabilitation and restoring the site on which it is located, the obligation for which the municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period.

As the related asset is measured using the cost model: -

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

### 1.9 Intangible assets

Intangible assets are identifiable non-monetary assets without physical substance held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets.

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Item	Depreciation method	Average useful life
Computer software, other	Straight-line	3 - 5 years, Indefinite
Service operating and land rights	Straight-line	Indefinite

#### Initial recognition and measurement

Intangible assets are initially recognised at cost. The cost of an intangible assets is the purchase price and other costs attributable to bring the intangible assets to the location and condition necessary for it to be capable of operating in the manner intended by the municipality, or where an intangible assets is acquired at no cost, or for a nominal cost, the cost shall be its fair value as at the date of acquisition. Trade discounts and rebates are deducted in arriving at the cost.

Intangible assets acquired separately or internally generated are reported at cost less accumulated amortisation and accumulated impairment losses.

#### Subsequent measurement

Amortisation is calculated on cost, using the straight-line method, over the useful lives of the assets, which is estimated to be between 3 to 5 years upon initial recognition. Where intangible assets are deemed to have an indefinite useful life, such intangible assets are not amortised.

#### Derecognition

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible assets is determined as the difference between the net disposals proceeds and the carrying value and is recognised in the Statement of financial performance.

### 1.10 Heritage assets

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

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

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



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.10 Heritage assets (continued)

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

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

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

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

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

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

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

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

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

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

### Initial recognition and measurement

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

Heritage assets are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of heritage assets is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired. The cost of an item of heritage assets acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at the fair value of the asset given up, unless the fair value of the asset received is more clearly evident. If the acquired item could not be measured at its fair value, its cost is measured at the carrying amount of the asset given up.

### Subsequent measurement

Subsequent expenditure relating to heritage assets is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all heritage assets are measured at cost less accumulated impairment losses. Heritage assets are not depreciated.

# Polokwane Local Municipality

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## Accounting Policies

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### 1.10 Heritage assets (continued)

#### Dererecognition

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

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

### 1.11 Investment in controlled entities

In the municipality's separate draft annual financial statements, investments in investments in controlled entities are carried at cost.

Investments in controlled entities that are accounted for in accordance with the accounting policy on Financial instruments in the consolidated draft annual financial statements, are accounted for in the same way in the controlling entity's separate draft annual financial statements.

### 1.12 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity. Financial instruments are classified into three categories namely, financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost. The municipality determines the classification of its financial instruments at initial recognition.

A financial instrument is recognised if the entity becomes a party to the contractual provisions of the instrument.

#### 1.12.1 Classification of financial instruments

##### Financial assets

A financial asset is any asset that is a cash or contractual right to receive cash. In accordance with GRAP 104 the Financial Assets of the municipality are classified as follows into the three categories allowed by this standard:

Financial asset at amortised cost being a non-derivative financial asset with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets.

Financial assets measured at fair value being financial assets that meet either of the following conditions:

- Derivatives;
- Combined instruments that are designated at fair value;
- Instruments held for trading;
- Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; or
- Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

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

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

#### Type of financial asset

Finance lease receivables  
Long-term receivables  
Current portion of long-term receivables  
Consumer debtors  
Other debtors  
Bank balances and cash

#### Classification in terms of GRAP 104

Financial assets at amortised cost  
Financial assets at amortised cost  
Financial assets at amortised cost  
Financial assets at amortised cost  
Financial assets at amortised cost  
Financial assets at amortised cost

# Polokwane Local Municipality

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## Accounting Policies

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### 1.12 Financial instruments (continued)

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

#### Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity.

The following main categories of financial liabilities and the classification determining how they are measured exist:

- Financial liabilities measured at amortised cost; or
- Financial liabilities measured at fair value.

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

Type of financial liability	Classification in terms of GRAP 104
Long-term liabilities	Financial liability at amortised cost
Current portion of long-term liabilities	Financial liability at amortised cost
Other creditors	Financial liability at amortised cost

Any other financial liabilities should be classified as financial liabilities at amortised cost.

#### 1.12.2 Initial and subsequent measurement

##### Initial recognition and measurement

A financial instruments is recognised, when the municipality becomes a party to the contractual provisions of the instrument, and are initially measured at fair value. In the case of a financial instruments not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial instruments are added or deducted from the fair value, as appropriate on initial recognition.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.12 Financial instruments (continued)

#### Subsequent measurement – Financial assets

Financial assets consist of cash and cash equivalents, deposits, receivables and investments.

Receivables are subsequently measured at amortised cost using the effective interest rate method, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the effective interest rate.

A provision for impairment of receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. Changes in the carrying amount of the provision is recognised in the Statement of financial performance. When a receivable is considered uncollectible, it is written off against the provision. Any gains or losses arising from the change in fair value of investments measured at fair value are recognised in the Statement of financial performance.

Residual interests that do not have a quoted market price in an active market, and the fair value of which cannot be reliably are subsequently measured at cost less any impairment. Impairment is considered when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. Any calculated impairment is recognised in the Statement of financial performance.

Financial assets at amortised cost are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial assets. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with interest recognised on an effective yield basis.

Trade and other receivables (excluding Value Added Taxation, prepayments and operating lease receivables), loans to municipal entities and loans that have fixed and determinable payments that are not quoted in an active market are classified as financial assets at amortised cost.

Financial assets measured at fair value are initially measured at fair value plus directly attributable transaction costs. They are subsequently measured at fair value with unrealised gains or losses recognised directly in equity until the investment is derecognised, at which time the cumulative gain or loss recorded in equity is recognised in the Statement of financial performance, or determined to be impaired, at which time the cumulative loss recorded in equity is recognised in the Statement of financial performance.

#### Subsequent measurement – Financial liabilities

Financial liabilities consist of payables, interest bearing loans and bank overdrafts. These liabilities are subsequently measured at amortised cost, using the effective interest rate method. Finance costs are expensed in the Statement of financial performance in the period in which they are incurred except where stated otherwise (see accounting policy on borrowing costs).

### 1.12.3 Impairment of financial assets

#### Consumer debtors

Consumer debtors are assessed individually thereafter collectively, considering factors such as payment histories and ratios, qualitative factors e.g. correspondence from attorneys, disputes about certain accounts, etc.

#### Other debtors

Other debtors are reviewed individually considering payment histories and disputes about certain amounts. Provision for impairment is made accordingly.

# Polokwane Local Municipality

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## Accounting Policies

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### 1.12 Financial instruments (continued)

#### 1.12.4 Derecognition

##### Financial assets

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

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial assets, the municipality continues to recognise the financial assets and also recognises a collateralised borrowing for the proceeds received.

##### Financial liabilities

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

### 1.13 Consumer deposits

The municipality recognises consumer deposits as a current liability when the municipality becomes a party to the contract i.e. when the deposit is made. The consumer deposit is recognised as a liability as the municipality has an obligation to pay the money back to the consumer once the consumer account is closed. As the timing of when a consumer will close their account is unknown, the consumer deposits are classified as a current liability.

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

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

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

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

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

### 1.14 Leases

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

#### Entity as lessee - Finance leases

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 municipality's incremental borrowing rate.

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

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

# Polokwane Local Municipality

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## Accounting Policies

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### 1.14 Leases (continued)

#### Entity as lessor - operating leases

The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability. The liability is not discounted.

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term. Income for leases is disclosed under revenue in statement of financial performance.

### 1.15 Inventories

Inventories are recognised as an asset if it is probable that future economic benefits or service potential associated with the item will flow to the municipality and the cost of the inventories can be measured reliably.

#### Initial measurement:

Inventories are initially measured at cost. Cost comprises all costs of purchase, cost of conversion and other costs incurred in bringing the inventories to their present location and condition. Where inventories are acquired through a non-exchange transaction, their costs are their fair value as at the date of acquisition.

#### Subsequent measurement:

##### *Land and water inventory:*

Subsequently inventories are measured at the lower of cost and net realisable value unless distributed through a non-exchange transaction or consumed in the production process of goods to be distributed at no charge or for a nominal charge, in which case they are measured at the lower of cost and current replacement cost.

##### *Consumables:*

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

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

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

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

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

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset. The cost of inventories is assigned using the weighted average cost formula, except for water which is determined at cost at the reporting date due to it being measured at the lower of cost and current replacement cost.

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

### 1.16 Impairment of property, plant and equipment, investment property, intangible assets and heritage assets

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. A commercial return means that the return charged by the entity is commensurate with the risk associated with holding the asset and the asset is intended to generate positive cash inflows. All other assets are classified as non-cash-generating assets.

### 1.17 Impairment of cash-generating assets

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

# Polokwane Local Municipality

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### 1.17 Impairment of cash-generating assets (continued)

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

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

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

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

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

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

The municipality classifies all assets held with the primary objective of generating a commercial return as cash-generating assets. All other assets are classified as non-cash-generating assets.

#### Designation

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

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

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

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

#### Identification

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

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

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

#### Value in use

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

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

# Polokwane Local Municipality

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## Accounting Policies

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### 1.17 Impairment of cash-generating assets (continued)

#### Basis for estimates of future cash flows

In measuring value in use the municipality:

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

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current prime rate of interest and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

#### Recognition and measurement (individual asset)

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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



# Polokwane Local Municipality

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## Accounting Policies

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### 1.17 Impairment of cash-generating assets (continued)

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

# Polokwane Local Municipality

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## Accounting Policies

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### 1.17 Impairment of cash-generating assets (continued)

#### Reversal of impairment loss

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

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

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

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

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

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

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

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

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

#### Redesignation

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

### 1.18 Impairment of non-cash-generating assets

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

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

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

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

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

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

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

# Polokwane Local Municipality

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### 1.18 Impairment of non-cash-generating assets (continued)

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

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

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

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

- \* Assets acquired by the municipality are mainly used as per the municipality's mandate for service delivery purposes to customers that pay for the services but also to indigents. As the assets that are used for service delivery are similar, assets that generate cash flows cannot be distinguished from the non-cash generating assets and therefore are distinguished as non-cash generating.
- \* In the event that the assets that generate cash flows can be clearly identified the assets will be designated as cash-generating.

#### Designation

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

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

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

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

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

Impairment is a loss in the 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).

#### Identification

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

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

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

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.18 Impairment of non-cash-generating assets (continued)

#### Value in use

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

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

#### Depreciated replacement cost approach

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

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

#### Restoration cost approach

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

#### Service units approach

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

#### Recognition and measurement

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

An impairment loss is recognised immediately in surplus or deficit.

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

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

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

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.18 Impairment of non-cash-generating assets (continued)

#### Reversal of an impairment loss

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

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

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

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

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

### 1.19 Employee benefits

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

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 entity, 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 entity's own creditors (even in liquidation) and cannot be paid to the reporting entity, 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 entity to reimburse it for employee benefits already paid.

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

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

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.19 Employee benefits (continued)

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

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.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.19 Employee benefits (continued)

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

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

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

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

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.19 Employee benefits (continued)

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

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

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

Assets held by a long-term employee benefit fund are assets (other than non-transferable financial instruments issued by the reporting entity) that are held by an entity (a fund) that is legally separate from the reporting entity and exists solely to pay or fund employee benefits and are available to be used only to pay or fund employee benefits, are not available to the reporting entity's own creditors (even in liquidation), and cannot be returned to the reporting entity, unless either:

- the remaining assets of the fund are sufficient to meet all the related employee benefit obligations of the plan or the reporting entity; or
- the assets are returned to the reporting entity to reimburse it for employee benefits already paid.

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

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

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

Plan assets comprise assets held by a long-term employee benefit fund and qualifying insurance policies.

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

The return on plan assets is interest, dividends or similar distributions and other revenue derived from the plan assets, together with realised and unrealised gains or losses on the plan assets, less any costs of administering the plan (other than those included in the actuarial assumptions used to measure the defined benefit obligation) and less any tax payable by the plan itself.

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

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

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

The amount determined as a defined benefit liability may be negative (an asset). The entity measures the resulting asset at the lower of:

- the amount determined above; and
- the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The present value of these economic benefits is determined using a discount rate which reflects the time value of money.

Any adjustments arising from the limit above is recognised in surplus or deficit.

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



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.19 Employee benefits (continued)

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

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

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

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

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

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

The entity recognises gains or losses on the curtailment or settlement of a defined benefit plan when the curtailment or settlement occurs. The gain or loss on a curtailment or settlement comprises:

- any resulting change in the present value of the defined benefit obligation; and
- any resulting change in the fair value of the plan assets.

Before determining the effect of a curtailment or settlement, the entity re-measure the obligation (and the related plan assets, if any) using current actuarial assumptions (including current market interest rates and other current market prices).

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is [OR is not] presented as the net of the amount recognised for a reimbursement.

The entity offsets an asset relating to one plan against a liability relating to another plan when the entity has a legally enforceable right to use a surplus in one plan to settle obligations under the other plan and intends either to settle the obligations on a net basis, or to realise the surplus in one plan and settle its obligation under the other plan simultaneously.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.19 Employee benefits (continued)

#### 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.

### 1.20 Provisions

Provisions are recognised when the municipality has a present (legal or constructive) obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the provision can be made.

The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the reporting date or to transfer it to a third party at that time and are determined by the judgment of the management of the municipality, supplemented by experience of similar transactions and, in some cases, reports from independent experts. The evidence considered includes any additional evidence provided by events after the reporting date. Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances, where the provision being measured involves a large population of items; the obligation is estimated by weighting all possible outcomes by their associated probabilities.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision. An onerous contract is a contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it - this unavoidable cost resulting from the contract is the amount of the provision to be recognised.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of financial performance as a finance cost as it occurs.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.20 Provisions (continued)

#### Environmental rehabilitation provisions

Estimated long-term environmental provisions, comprising rehabilitation and landfill site closure, are based on the municipality's policy, taking into account current technological, environmental and regulatory requirements. The provision for rehabilitation is recognised as and when the environmental liability arises. To the extent that the obligations relate to the asset, they are capitalised as part of the cost of those assets. Any subsequent changes to an obligation that did not relate to the initial related asset are charged to the Statement of financial performance.

At year end a provision is raised for the rehabilitation of landfill sites. The provision is the net present value of the future cash flows to rehabilitate damaged land at year end.

As the related asset is measured using the cost model

- changes in the liability is added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit;
- if the adjustments result 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 be fully recoverable. If there is such an indication, the municipality tests the asset for the impairment by estimating its recoverable amount or recoverable service amount, and accounts for any impairment loss, in accordance with the accounting policy on impairment of assets as described in the accounting policy on impairment of cash-generating assets and/ or impairment of non-cash generating assets.

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

### 1.21 Contingent assets and contingent liabilities

Contingent liabilities represent a possible obligation that arises from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

A contingent liability can also arise as a result of a present obligation that arises from past events but which is not recognised as a liability either because it is not probable that an outflow of resources embodying economic benefits will be required to settle the obligation or the amount of the obligation cannot be measured with sufficient reliability.

Contingent assets represent possible assets that arise from past events and whose existence will be confirmed only by an occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the municipality.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the municipality.

### 1.22 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.

### 1.23 Revenue

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

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.23 Revenue (continued)

#### Recognition and measurement

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

Stage of completion is determined by a variety of methods. Depending on the nature of the transaction, the methods may include:

- surveys of work performed;
- services performed to date as a percentage of total services to be performed;
- the proportion that costs incurred to date bear to the estimated total costs of the transaction. Only costs that reflect services performed to date are included in costs incurred to date. Only costs that reflect services performed or to be performed are included in the estimated total costs of the transaction.

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

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

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

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.23 Revenue (continued)

#### 1.23.1 Revenue from exchange transactions

##### Service charges

Service charges relating to electricity and water are based on consumption. Meters are read on a monthly basis and are recognised as revenue when invoiced. Provisional estimates of consumption, based on the consumption history, are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced, except at year-end when estimates of consumption up to year-end are recorded as revenue without it being invoiced. The municipality council approved consumption estimates based on estimates which is used where the inaccessible meters does not have history that could be substantiated. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is made based on the average monthly consumption of consumers.

Service charges relating to Sewerage and refuse removal is recognised monthly in arrears by applying the approved tariff. The municipality use the approved tariff for basic charge and based on the size of the property determine the revenue to be recognised..

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

##### Pre-paid electricity

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

##### Interest earned and rentals received

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.

##### Traffic charges

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

##### Income from agency services

Income for agency services is recognised on a monthly basis once the income collected on behalf of the principal has been quantified. The income recognised is in terms of the agency agreement.

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

##### Revenue recognition of unclaimed deposits

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

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.23 Revenue (continued)

#### 1.23.2 Revenue from non-exchange transactions

##### Rates and taxes

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

##### Fines

Fines constitute both spot fines and camera fines. Fines are recognised when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. It is measured at the best estimate, based on past experience, of the amount of revenue the municipality is entitled to collect.

Subsequent to initial recognition and measurement, the municipality assess the collectability of the revenue and recognises a separate impairment loss where appropriate.

##### Donations and contributions

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

##### Transfers and subsidies

##### Unconditional grants

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

##### Conditional grants

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

##### Services received in-kind

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

##### Parking fee revenue

Revenue from Parking fees is recognised when the municipality issues the respective invoice to the agent.

##### Revenue from bus fares

Paper Ticket: Revenue from the sales of Paper ticket is recognised as revenue by the municipality at the point of sale.

Automated Fare collection system: Revenue from the sale of automated fare collection card will be recognised at the point of sale. Revenue for service rendered will be recognised based on the usage of the bus services by the commuters.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.24 Unspent conditional grants

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

### 1.25 Investment income

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

### 1.26 Borrowing costs

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

Borrowing costs are recognised as an expense in the Statement of financial performance in the period in which they are incurred.

### 1.27 Unauthorised expenditure

Section 1 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA), defines Unauthorised expenditure as follows:

- Overspending of the total amount appropriated in the municipality's approved budget;
- Overspending of the total amount appropriated for a vote in the approved budget;
- Expenditure from a vote unrelated to the department or functional area covered by the vote;
- Expenditure of money appropriated for a specific purpose, otherwise than for that specific purpose;
- Spending of an allocation referred to in the above paragraphs of the definition of "allocation" otherwise than in accordance with any conditions of the allocation; or
- A grant by the municipality otherwise than in accordance with this Act.

Section 1 of the Municipal Finance Management Act (Act 56 of 2003) (MFMA) also defines a Vote as:

- One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the municipality; and
- Which specifies the total amount that is appropriated for the purposes of the department or functional area concerned.

The municipality uses the Municipal Standard Chart of Accounts (mSCOA) Functions and Sub-functions, previously the Government Finance Statistics (GFS) functions, as well as departments as the main groupings of segments of the municipality's budget segments within the municipality are grouped per department to facilitate greater accountability and budget implementation by the respective Executive Directors as well as per mSCOA classification to facilitate comparisons on a higher level.

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. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

### 1.28 Fruitless and wasteful expenditure

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the Statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the Statement of financial performance.

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

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

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.29 Irregular expenditure

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

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

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

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

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

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

### 1.30 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

### 1.31 Segment information

A segment is an activity of an entity:

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

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

The reportable segments identified are those functional segments reported in the Government Finance Statistics (GFS's) format and the Municipal Vote (Departmental) format per the Monthly Section 71 Management Reports. The information that will be reported is aligned to the monthly section 71 reports which are reviewed by the executive management. The Government Finance Statistics (GFS's) format allows for universal comparability of segments. The main factors considered in selecting the segments were the level of comparability with other preparers and a level of aggregation that does not detract from presenting the separate revenue or service delivery components.

The Municipality uses the Municipal Vote (Departmental) as Primary and the GFS as Secondary segment reporting levels. The assets and liabilities are not reviewed at all on a segregated basis.



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.31 Segment information (continued)

#### Measurement

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

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

### 1.32 Budget information

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

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

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

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

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

The audited 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.

In general, a difference of 10% or more is considered material, although the surrounding circumstances are taken into account if it could influence the decisions or assessments of the users of the annual financial statements in determining whether a difference between the budgeted and actual amount is material.

All comparisons of the budget and actual amounts shall be presented on a comparative basis to the budget. Comparative information includes the following:

- the approved and final amounts;
- actual amounts and final budget amounts.

### 1.33 Related parties and related party transactions

A related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. Related party relationships where control exists are disclosed regardless of whether any transactions took place between the parties during the reporting period.

Related parties include key management personnel, close members of family of key management and councillors.

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

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

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

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.33 Related parties and related party transactions (continued)

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

Key management personnel include all heads of department or members of the municipal council of the reporting municipality where that council has jurisdiction. The Council, together with the Municipal Manager and Section 57 employees has authority and responsibility to plan and control the activities of the municipality, to manage the resources and for the overall achievement of municipal objectives.

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 not at arm's length or not in the ordinary course of business are disclosed.

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

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

### 1.34 Events after reporting date

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

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

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

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

### 1.35 Statutory receivables

#### 1.35.1 Identification

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

The municipality has the following major categories under the ambit of statutory receivables:

- VAT receivables
- Rates debtors
- Traffic fine debtors
- Availability charges debtors:

#### 1.35.2 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.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.35 Statutory receivables (continued)

#### 1.35.3 Measurement

The municipality initially measures statutory receivables at their transaction amount.

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

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

#### 1.35.4 Impairment

Statutory receivables, other than those measured at fair value, are assessed for indicators of impairment at the end of each reporting period. Statutory receivables are impaired where there is objective evidence of impairment of Statutory receivables (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with GRAP 108.

A provision for impairment of receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate.

According to GRAP 108, the assessment for impairment needs to be made for each individual financial asset separately or for groups of statutory receivables with similar credit risks. The following methodology was followed to make a provision for bad debts for the year under review:

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.

Rates debtors are assessed individually thereafter collectively, considering factors such as payment histories and ratios, qualitative factors e.g. correspondence from attorneys, disputes about certain accounts, etc.

#### 1.35.5 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 control of the statutory receivable and substantially all the risks and rewards of ownership of the asset to another entity; 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.

### 1.36 Value Added Tax

The municipality is registered with the South African Revenue Service (SARS) for Value Added Tax on the payment basis, in accordance with Section 15(2)(a) of the Value-Added Tax Act No 89 of 1991.

VAT is accounted for on an accrual basis in the annual financial statements.

### 1.37 Principal-agent arrangements

The municipality is party to a principal-agent arrangement for [include details here]. In terms of the arrangement the municipality is the and is responsible for [include details here].

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.37 Principal-agent arrangements (continued)

#### Identification

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

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

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

#### Binding arrangement

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

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

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

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

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

- It does not have the power to determine the significant terms and conditions of the transaction.
- It does not have the ability to use all, or substantially all, of the resources that result from the transaction for its own benefit.
- It is not exposed to variability in the results of the transaction.

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

#### Recognition

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

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

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

### 1.38 Living resources

Living resources are those resources, other than biological assets that form part of an agricultural activity, that undergo biological transformation.

Living resources include living organisms, for example animals and plants that are used or held for:

- the delivery or provision of goods and services
- research
- conservation
- recreation
- agricultural activities
- education or training; and
- rehabilitation or breeding purposes

#### Definitions

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.38 Living resources (continued)

Group of resources means a grouping of living or non-living resources of a similar nature or function in an entity's operations that is shown as a single item for the purpose of disclosure in the financial statements.

Living resources are those resources that undergo biological transformation.

Non-living resources are those resources, other than living resources, that occur naturally and have not been extracted.

Non-living resources are those resources, other than living resources, that occur naturally and have not been extracted.

#### Initial and subsequent measurement

A living resource shall be recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the asset will flow to the entity; and the cost or fair value of the asset can be measured reliably.

The definition of an asset is met if the living resource is controlled by the entity, because of past events, and from which future economic benefits or service potential is expected to flow to the entity. Control is assessed with guidance of GRAP 110.

Living resources are initially recognised at cost on its acquisition date. The cost of a living resource is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost.

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

Subsequent expenditure relating to living is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the municipality and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset.

Elements of cost are determined with reference to GRAP 110 which take into account borrowing costs as well as combinations of monetary and non-monetary exchanges for acquisitions.

One or more living resources may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets. For example, two entities that are engaged in breeding activities may exchange resources to improve the bloodline of a specific animal. When one non-monetary asset is exchanged for another, the cost of such a living resource is measured at fair value unless the fair value of neither the asset received, nor the asset given up is reliably measurable. If the acquired living resource is not measured at fair value, its cost is measured at the carrying amount of the asset given up. The acquired item is measured in this way even if an entity cannot immediately derecognise the asset given up.

The fair value of an asset for which comparable market transactions do not exist is reliably measurable if (a) the variability in the range of reasonable fair value estimates is not significant for that asset or (b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value. If an entity can reliably determine the fair value of either the asset received or the asset given up, then the fair value of the asset given up is used to measure the cost of the asset received. This applies unless the fair value of the asset received is more clearly evident.

#### Subsequent measurement – revaluation model

After recognition as an asset, a group of living resources, whose fair value can be measured reliably, are carried at a revalued amount, which is its fair value at the date of the revaluation. Revaluations are made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Revaluation period will be the same as followed for Property, Plant and Equipment, which is every three years. The accounting treatment for revaluations will be as per GRAP 110

An increase in the carrying amount of living resources as a result of a revaluation is credited directly to a revaluation surplus reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

A decrease in the carrying amount of an asset as a result of a revaluation is recognised in surplus or deficit, except to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

#### Determining fair value

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Accounting Policies

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### 1.38 Living resources (continued)

The fair value of a living resource is the price at which the living resource could be exchanged between knowledgeable, willing parties in an arm's length transaction. Fair value specifically excludes an estimated price inflated or deflated by special terms or circumstances, such as special considerations or concessions granted by anyone associated with the exchange. Fair value of living and non-living resources is determined and accounted for with guidance from GRAP 110.

#### Depreciation

Living and non-living resources shall not be depreciated due to the nature in which they are held. These animals are kept in the reserves and are left to roam in the reserve without being traced or tagged. Therefore, the revalued amount will be used for the purpose of reporting until the next revaluation date.

#### Derecognition

The carrying amount of a living resources 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 is included in surplus or deficit when the item is derecognised. Gains are not classified as revenue. Gains or losses are calculated as the difference between the carrying values of assets and consideration received / receivable.

### 1.39 Cash and cash equivalents

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash and are subject to an insignificant risk of change in value. Cash and cash equivalents are carried at amortised cost. Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdraft are expensed as incurred. Amounts owing in respect of bank overdrafts are carried at amortised cost.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts.

### 1.40 Change in accounting policies, estimates and errors

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements.

Correction of errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Details of changes in accounting policies, changes in estimates and correction of errors are disclosed in the notes to the audited annual financial statements where applicable.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand

2023

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### 2. New standards and interpretations

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

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

<b>Standard/ Interpretation:</b>	<b>Effective date: Years beginning on or after</b>	<b>Expected impact:</b>
• Guideline: Guideline on Accounting for Landfill Sites	01 April 2023	Unlikely there will be a material impact
• GRAP 25 (as revised): Employee Benefits	01 April 2023	Unlikely there will be a material impact
• Guideline: Guideline on the Application of Materiality to Financial Statements	01 April 2023	Unlikely there will be a material impact
• GRAP 104 (as revised): Financial Instruments	01 April 2025	Unlikely there will be a material impact
• iGRAP 21: The Effect of Past Decisions on Materiality	01 April 2023	Unlikely there will be a material impact
• GRAP 1 (amended): Presentation of Financial Statements	01 April 2023	Unlikely there will be a material impact

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>3. Cash and cash equivalents</b>		
<b>3.1 Cash and cash equivalents</b>		
Cash and cash equivalents consist of the following:		
<b>Cash at bank</b>		
Bank account	184 357 038	232 655 654
Cash on hand	14 353	14 353
<b>Total cash and cash equivalents</b>	<b>184 371 391</b>	<b>232 670 007</b>

### 3.2 Bank accounts

The municipality has the following bank accounts:

Standard Bank	Business current account - 030172349	183 765 763	232 095 282
Standard Bank	Business current account - DBSA - 80472818	-	(212)
Standard Bank	Business current account - Housing account - 330535269	591 275	560 562
<b>Total</b>		<b>184 357 038</b>	<b>232 655 632</b>

### 3.3 Difference between cash book and bank statement

#### 2023

	Cash book	Bank statement	Difference
Standard bank - Business current account - 030172349	183 765 763	182 560 100	1 205 663
Standard Bank - Business current account - DBSA - 80472818	-	-	-
Standard Bank - Business current account - Grant account - 251753846	-	-	-
Standard Bank - Business current account - Housing account - 330535269	591 275	591 275	-
	<b>184 357 038</b>	<b>183 151 375</b>	<b>1 205 663</b>

#### 2022

	Cash book	Bank statement	Difference
Standard Bank - Business current account - 030172349	232 095 282	230 362 239	1 733 043
Standard Bank - Business current account - DBSA - 80472818	(212)	(212)	-
Standard Bank - Business current account - Grant account - 251753846	-	-	-
Standard Bank - Business current account - Housing account - 330535269	560 562	560 562	-
	<b>232 655 632</b>	<b>230 922 589</b>	<b>1 733 043</b>

No cash and cash equivalents are kept as collateral.

### 4. Receivables from exchange transactions

#### Consumer receivables from exchange transactions

Electricity	4.1	316 100 608	322 938 983
Waste management		190 543 401	195 123 175
Waste water management		159 920 161	165 302 892
Water		419 527 032	445 920 118
		<b>1 086 091 202</b>	<b>1 129 285 168</b>



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand		2023	2022
<b>4. Receivables from exchange transactions (continued)</b>			
<b>Other receivables from exchange transactions</b>	4.2		
Housing selling scheme		320 830	304 447
Land sale debtors		-	1 909 000
Property rental debtors		40 771 039	29 973 622
Other sundry debtors		260 501 326	276 799 486
R/D cheques		-	1 449 163
Provision for impairment		(664 537 205)	(642 897 217)
		<b>(362 944 010)</b>	<b>(332 461 499)</b>
<b>Total receivables from exchange transactions</b>		<b>723 147 192</b>	<b>796 823 669</b>

The amount disclosed in this note is net of impairment. Refer to note 4.1 & 4.2 for the amount before the provision (gross) and the actual value of the provision.

### 4.1 Consumer receivables

#### 4.1.1 Ageing of consumer receivables

##### 2023

	Not due		Past due			
	Total	Current	30 days	60 days	90 days	120+ days
<b>Consumer receivables from exchange transactions</b>						
<b>Total by debt type</b>						
Electricity	316 100 608	93 262 254	15 190 409	8 780 491	11 690 262	187 177 192
Waste management	190 543 401	18 931 726	7 983 357	6 388 809	5 582 367	151 657 142
Waste water management	159 920 161	18 867 524	8 093 811	6 535 840	6 413 338	120 009 648
Water	419 527 032	37 904 069	16 063 586	7 237 110	28 743 280	329 578 987
<b>Total by debt type</b>	<b>1 086 091 202</b>	<b>168 965 573</b>	<b>47 331 163</b>	<b>28 942 250</b>	<b>52 429 247</b>	<b>788 422 969</b>

##### 2022

	Not due		Past due			
	Total	Current	30 days	60 days	90 days	120+ days
<b>Consumer receivables from exchange transactions</b>						
<b>Total by debt type</b>						
Electricity	322 938 983	117 538 807	18 343 406	11 044 729	8 670 655	167 341 386
Waste management	195 123 175	59 814 913	6 522 932	4 544 987	3 914 513	120 325 830
Waste water management	165 302 892	57 593 842	7 253 003	4 595 879	3 932 031	91 928 137
Water	445 920 118	65 646 924	12 390 196	8 974 823	7 742 056	351 166 119
<b>Total by debt type</b>	<b>1 129 285 168</b>	<b>300 594 486</b>	<b>44 509 537</b>	<b>29 160 418</b>	<b>24 259 255</b>	<b>730 761 472</b>

#### 4.1.2 Consumer receivables pledged as security

No consumer debtors are pledged as security

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand

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### 4. Receivables from exchange transactions (continued)

#### 4.2 Trade receivables

##### 4.2.1 Ageing of trade receivables

#### 2023

	Not due			Past due		
	Total	Current	30 days	60 days	90 days	120+ days
Housing selling scheme	320 830	1 545	1 545	1 545	1 545	314 650
Property rental debtors	40 771 039	37 800 502	108 557	108 557	108 557	2 644 866
Othe sundry debtors	260 501 326	19 524 017	4 627 377	2 604 009	2 857 853	230 888 070
<b>Total</b>	<b>301 593 195</b>	<b>57 326 064</b>	<b>4 737 479</b>	<b>2 714 111</b>	<b>2 967 955</b>	<b>233 847 586</b>

#### 2022

	Not due			Past due		
	Total	Current	30 days	60 days	90 days	120+ days
Housing selling scheme	304 447	1 242	1 233	1 233	1 233	299 506
Land sale debtors	1 909 000	1 909 000	-	-	-	-
Property rental debtors	29 973 622	27 423 984	100 516	100 516	100 516	2 248 090
Othe sundry debtors	276 799 486	48 234 910	4 465 141	3 853 063	3 612 148	216 634 224
<b>Total</b>	<b>308 986 555</b>	<b>77 569 136</b>	<b>4 566 890</b>	<b>3 954 812</b>	<b>3 713 897</b>	<b>219 181 820</b>

##### 4.2.2 Trade receivables pledged as security

No Receivable were pledged as security

##### Reconciliation of allowance for impairment

Balance at the beginning of the year	(642 897 217)	(567 016 973)
RD cheques opening balance	-	1 449 740
RD cheques during the year	-	(577)
Contributions to provision for consumer debtors	(21 639 988)	(75 880 244)
	<b>(664 537 205)</b>	<b>(641 448 054)</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>5. Other receivables from exchange transactions</b>		
Deposits	975 474	800 724
Control, clearing and interface accounts	2 316 506	970 339
Abeyance	3 173 989	2 839 697
Prepayments and advances	27 282 046	26 507 924
Current portion of non-current receivables	15 -	18 164
<b>Total</b>	<b>33 748 015</b>	<b>31 136 848</b>
<b>Reconciliation of current portion of non-current receivables</b>		
Sporting and Other Bodies	-	18 164
<b>Reconciliation of Abeyance</b>		
Sundry debtors - auctioneer	3 185 394	3 185 394
Leelyn Parking Management	1 562 511	1 562 511
Interest recoverable from DBSA	17 708	17 708
Receivable from Esilux	-	2 821 989
Receivable from SANRAL	3 173 989	-
Provision for impairment	(4 765 613)	(4 747 905)
	<b>3 173 989</b>	<b>2 839 697</b>
<b>Reconciliation of control, clearing and interface accounts</b>		
Accrued Interest	2 306 185	970 339
Over/Under Banking	10 321	(1)
	<b>2 316 506</b>	<b>970 338</b>
<b>Minimum rental receipts</b>		
The municipality is a lessor of various buildings, vacant land, hawker stands as well as land where mobile phone masts are erected. The contract terms and escalation rates vary from one contract to another. It has also entered into numerous developer contracts. The municipality lets out these properties to the general public.		
Within a year	10 079 637	10 951 871
Between 1 and 5 years	32 746 721	38 907 281
After 5 years	649 038 628	652 140 655
	<b>691 864 986</b>	<b>701 999 807</b>
No debtors are held as collateral.		
<b>6. Receivables from non-exchange transactions</b>		
<b>Consumer receivables</b>		
Property rates	6.1 342 108 778	291 421 724
<b>Other receivables</b>		
Fines	6.1 4 291 040	6 128 660
Over payments	-	(807 179)
R/D cheques	-	(1 449 164)
	<b>4 291 040</b>	<b>3 872 317</b>
<b>Total receivables</b>	<b>346 399 818</b>	<b>295 294 041</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand 2023 2022

### 6. Receivables from non-exchange transactions (continued)

#### 6.1 Receivables from non-exchange transactions

	2023			2022		
	Gross	Impairment	Total	Gross	Impairment	Total
<b>Consumer receivables</b>						
Property rates	568 420 878	(226 312 100)	342 108 778	508 342 509	(216 920 785)	291 421 724
<b>Other receivables</b>						
Fines	171 121 561	(166 830 521)	4 291 040	142 018 554	(135 889 894)	6 128 660
Over payments	-	-	-	(807 179)	-	(807 179)
R/D cheques	-	-	-	-	(1 449 164)	(1 449 164)
	<b>171 121 561</b>	<b>(166 830 521)</b>	<b>4 291 040</b>	<b>141 211 375</b>	<b>(137 339 058)</b>	<b>3 872 317</b>
<b>Total</b>	<b>739 542 439</b>	<b>(393 142 621)</b>	<b>346 399 818</b>	<b>649 553 884</b>	<b>(354 259 843)</b>	<b>295 294 041</b>

#### 6.1.1 Ageing of receivables from non-exchange transactions

##### 2023

	Total	Not due		Past due		
		Current	30 days	60 days	90 days	120+ days
<b>Consumer receivables</b>						
Property rates	568 420 878	49 651 053	23 184 548	21 496 031	21 019 346	453 069 900

##### 2022

	Total	Not due		Past due		
		Current	30 days	60 days	90 days	120+ days
<b>Consumer receivables</b>						
Property rates	508 342 509	30 291 276	19 541 622	16 349 617	42 440 713	399 719 281

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand

### 6. Receivables from non-exchange transactions (continued)

#### 6.1.2 Impairment reconciliation of receivables from non-exchange transactions

	2023			2022		
	Opening balance	Impairment raised	Closing balance	Opening balance	Impairment raised	Closing balance
<b>Consumer receivables</b>						
Property rates	(216 920 785)	(9 391 315)	(226 312 100)	(209 636 820)	(7 283 965)	(216 920 785)
<b>Other receivables</b>						
Fines	(135 889 894)	(30 940 627)	(166 830 521)	(77 956 563)	(57 933 331)	(135 889 894)
R/D cheques	(1 449 164)	1 449 164	-	-	(1 449 164)	(1 449 164)
	<b>(137 339 058)</b>	<b>(29 491 463)</b>	<b>(166 830 521)</b>	<b>(77 956 563)</b>	<b>(59 382 495)</b>	<b>(137 339 058)</b>
<b>Total</b>	<b>(354 259 843)</b>	<b>(38 882 778)</b>	<b>(393 142 621)</b>	<b>(287 593 383)</b>	<b>(66 666 460)</b>	<b>(354 259 843)</b>

#### 6.1.3 Other receivables from non-exchange transactions pledged as security

No Other receivables from non-exchange transactions are pledged as security

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand		2023	2022
<b>7. Inventories</b>			
Materials and supplies		88 278 259	116 985 927
Water	7.1	454 943	404 786
Land		5 262 120	5 262 120
<b>Total Inventories</b>		<b>93 995 322</b>	<b>122 652 833</b>

The amount of write-down of inventories recognised as an expense is R 792 800 (2022: R 29 116 710).

### 7.1 Water

Opening balance		404 786	255 683
System input volume		241 167 026	258 973 831
Authorised consumption		(153 772 783)	(171 829 775)
Water losses	41.2	(87 344 085)	(86 994 953)
<b>Closing balance</b>		<b>454 944</b>	<b>404 786</b>

### 7.2 Inventory pledged as security

None of the inventories are pledged as security.

## 8. VAT receivable/(payable)

VAT receivable/(payable)		45 397 113	14 896 268
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The municipality is registered for VAT on the cash basis.

## 9. Investment property

### 9.1 Reconciliation of carrying value

Opening carrying value		961 287 293	1 132 976 112
Fair Value Adjustments		38 744 119	(104 297 853)
<b>Carrying value of disposals / transfers</b>			
Carrying value at date of disposal		(5 899 998)	(67 390 966)
<b>Closing carrying value</b>		<b>994 131 414</b>	<b>961 287 293</b>
Fair value at 30 June		994 131 414	961 287 293

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.

### 9.2 Investment property contractual commitments

There are no contractual obligations to purchase, construct or develop investment property or for repairs, maintenance or enhancement

### 9.3 Restrictions on investment property

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

### 9.4 Investment property pledged as security

No investment property assets are pledged as security.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
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### 9. Investment property (continued)

#### Details of valuation

The values were determined by an external professional valuer registered in terms of the Property Valuers Act No 47 of 2000, Registration number 6990/2. The value of investment property comprising of land and building was determined by using a combination of valuation approaches. Each of these approaches assessed the relevance of each specific property based on their nature, use and comparable market transactions. The preferred valuation methodology applied to vacant land was that of comparable market related sales based on use, location and extent. In cases where no reasonable comparable sales were available the discounted cash flow methodology was used based on market related rentals for similar properties. Investment properties were fair valued by Madie Bapela CA(SA)(RA), Madishe Shokoane CA(SA), Max Pawandiwa (Pr Eng-Civil)

#### Amounts recognised is surplus or deficit

Rental revenue from investment property	<u>10 318 774</u>	<u>1 106 882</u>
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#### Property interests

There are no property interests held under operating leases.

#### Operating expenses

The municipality does not incur any operating expenses (including repairs and maintenance) on investment properties.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand

### 10. Property, plant and equipment

#### 10.1 Summary

	2023			2022		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land	351 505 227	-	351 505 227	364 860 926	-	364 860 926
Movable assets and other	507 870 260	(280 135 860)	227 734 400	483 004 208	(231 001 255)	252 002 953
Infrastructure	27 523 901 575	(18 112 862 935)	9 411 038 640	21 456 192 620	(13 555 290 021)	7 900 902 599
Community Assets	5 608 529 287	(3 275 082 832)	2 333 446 455	4 561 926 314	(2 566 946 742)	1 994 979 572
Leased Assets	43 484 964	(18 042 847)	25 442 117	40 657 758	(19 337 298)	21 320 460
Construction Work-in-progress	2 330 212 787	-	2 330 212 787	2 059 185 978	-	2 059 185 978
<b>Total</b>	<b>36 365 504 100</b>	<b>(21 686 124 474)</b>	<b>14 679 379 626</b>	<b>28 965 827 804</b>	<b>(16 372 575 316)</b>	<b>12 593 252 488</b>

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

	Opening balance	Additions	Disposals	Transfers	Revaluations	Depreciation	Impairment loss	Total
Land	364 860 926	24 788	-	-	(13 380 487)	-	-	351 505 227
Movable assets and other	252 002 953	25 083 161	(101 720)	-	-	(42 759 963)	(6 490 031)	227 734 400
Infrastructure	7 900 902 599	48 175 165	(7 015 475)	290 422 429	1 729 861 695	(529 505 618)	(21 802 155)	9 411 038 640
Community Assets	1 994 979 572	3 166 405	(87 216)	1 405 555	474 747 686	(138 482 059)	(2 283 488)	2 333 446 455
Leased assets	21 320 460	12 960 339	-	-	-	(8 838 682)	-	25 442 117
Construction Work-in-progress	2 059 185 978	563 423 920	-	(291 827 984)	-	-	(569 127)	2 330 212 787
	<b>12 593 252 488</b>	<b>652 833 778</b>	<b>(7 204 411)</b>	<b>-</b>	<b>2 191 228 894</b>	<b>(719 586 322)</b>	<b>(31 144 801)</b>	<b>14 679 379 626</b>



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand

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

#### Reconciliation of property, plant and equipment - 2022

	Opening balance	Additions	Disposals	Transfers	Depreciation	Impairment loss	Total
Land	364 860 926	-	-	-	-	-	364 860 926
Movable assets and other	257 257 268	39 599 142	(759 481)	18 508 839	(50 382 137)	(12 220 678)	252 002 953
Infrastructure	8 138 626 864	4 520 780	(74 545)	316 008 008	(555 794 049)	(2 384 459)	7 900 902 599
Community Assets	2 050 850 406	-	-	85 655 014	(141 128 008)	(397 840)	1 994 979 572
Leased assets	30 196 043	759 659	(113 252)	-	(9 521 990)	-	21 320 460
Construction Work-in-progress	1 958 213 313	524 644 130	-	(420 171 861)	-	(3 499 604)	2 059 185 978
	<b>12 800 004 820</b>	<b>569 523 711</b>	<b>(947 278)</b>	<b>-</b>	<b>(756 826 184)</b>	<b>(18 502 581)</b>	<b>12 593 252 488</b>

A register containing the information required by Section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

#### 10.2 Change in estimate

##### Useful life of property, plant and equipment

Depreciable assets - During the year, the useful life of property, plant and equipment had been re-estimated at the beginning of the current period to reflect the actual pattern of service potential derived from the assets.

The effect on the current and future periods will be a decrease in the depreciation charge of R50 037 358 in the current period and an equal increase in the depreciation charge of R50 037 358 over the remaining period/s.

#### 10.3 Property, plant and equipment contractual commitments

The contractual commitment for the acquisition of property, plant and equipment is as follows:

Infrastructure						<u>998 789 789</u>	<u>705 502 041</u>
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#### 10.4 Property, plant and equipment pledged as security

No assets have been pledged as security.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand 2023 2022

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

#### 10.5 Maintenance of property, plant and equipment

##### 10.5.1 Maintenance of property, plant and equipment by nature and type of expenditure

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

Contracted services	433 406 095	536 840 672
Employee costs	252 770 842	233 064 323
Inventory consumed	46 456 488	46 126 154
Operational costs	10 493 922	15 344 913
	<b><u>743 127 347</u></b>	<b><u>831 376 062</u></b>

#### 10.6 Other information

##### Borrowing costs capitalised

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

##### Assets subject to finance lease (Net carrying value)

Leased Assets	<u>25 442 117</u>	<u>21 320 460</u>
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##### Revaluations

The effective date of the revaluations was Friday, 30 June 2023. Revaluations were performed by MMB Consulting. MMB Consulting and its directors are not connected to the municipality. (The valuations are performed by Mr Zack van der Merwe [National Diploma Real Estate - Unisa (Property Valuation) RSA 2005].

Land and infrastructure are re-valued independently every three years.

The valuation for Public Service Infrastructure were valued through a calculated nominal value.

The valuation for land is based on the market rate per square metre, taking into account the extent of the property.

All assumptions were based on current market conditions at the time of the valuation.

##### Delayed and halted projects

#### Carrying value of delayed and halted projects

Terminated contracts due to poor performance by contractors	472 273 215	408 285 221
Delay in servitude negotiation and payment agreements	6 646 633	3 339 785
Variation orders	480 397 025	-
Lack of funding	297 622 342	-
Lack of capacity by Eskom	9 075 445	-
	<b><u>1 266 014 660</u></b>	<b><u>411 625 006</u></b>

Within the above carrying value of delayed and halted projects is a carrying value of R409 600159 (Prior year: R259 668 161) relating to halted projects.

An impairment loss of R569 127 was recognised in the current reporting period (Prior year: R3 499 604) on the above capital projects. Condition assessment were performed for consideration of impairment in all the delayed and halted projects.

##### Work in progress

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023		2022	
<b>10. Property, plant and equipment (continued)</b>				
<b>Reconciliation of work-in-progress 2023</b>	Included within infrastructure assets	Included within community assets	Included within other PPE	Total
Opening balance	1 559 390 720	499 795 434	-	2 059 186 154
Additions/capital expenditure	554 560 718	8 863 026	-	563 423 744
Transferred to completed items	(290 422 427)	(1 405 556)	-	(291 827 983)
Impairment loss	(111 910)	(457 217)	-	(569 127)
	<b>1 823 417 101</b>	<b>506 795 687</b>	<b>-</b>	<b>2 330 212 788</b>
<b>Reconciliation of work-in-progress 2022</b>	Included within infrastructure assets	Included within community assets	Included within other PPE	Total
Restated opening balance	1 604 036 398	308 777 777	18 508 840	1 931 323 015
Additions/capital expenditure	384 561 784	275 525 890	-	660 087 674
Transferred to completed items	(317 154 787)	(84 508 233)	(18 508 840)	(420 171 860)
Expensed	(111 704 105)	-	-	(111 704 105)
Transfer to prepayments	(348 570)	-	-	(348 570)
	<b>1 559 390 720</b>	<b>499 795 434</b>	<b>-</b>	<b>2 059 186 154</b>

### 11. Biological assets

#### 11.1 Reconciliation of carrying value

	2023		2022	
	Biological assets measured at fair value	Total	Biological assets measured at fair value	Total
Opening carrying value	14 872 363	14 872 363	9 028 200	9 028 200
<b>Fair value less costs to sell adjustments</b>				
Timber trees	33 058	33 058	5 844 163	5 844 163
<b>Closing carrying value</b>	<b>14 905 421</b>	<b>14 905 421</b>	<b>14 872 363</b>	<b>14 872 363</b>

#### 11.2 Biological assets contractual commitments

There is no commitment for the development or acquisition of biological assets.

#### 11.3 Restrictions on biological assets

There are no biological assets whose title is restricted and the municipality does not have restrictions regarding the sale of the biological assets.

#### 11.4 Financial risk management strategies

There are no financial management risks related to agricultural activity in the municipality.

#### Non-financial information

All biological assets relate to timber.

All biological assets held by the municipality are bearer biological assets. These assets are used for more than one financial year.

The municipality does not have consumable biological assets.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand 2023 2022

### 11. Biological assets (continued)

The municipality does not have any biological assets held for sale or held for distribution at no charge or for nominal value.

The municipality holds biological assets at the Kromdraai farm which are held for more than one financial year.

The fair value of the timber is determined with reference to recent market prices for the biological assets in the market.

The biological assets are matured and have reached harvest stage.

There was no harvest of biological assets during the financial year.

### 12. Heritage assets

#### 12.1 Reconciliation of carrying value

##### 2023

	Heritage sites	Memorials and statues	Artworks	Total
<b>Opening carrying value as at 01 July 2022</b>				
Cost	144 000	3 858 647	17 897 171	21 899 818
Accumulated impairment losses	-	-	(32 250)	(32 250)
	<b>144 000</b>	<b>3 858 647</b>	<b>17 864 921</b>	<b>21 867 568</b>
<b>Closing carrying value as at 30 June 2023</b>	<b>144 000</b>	<b>3 858 647</b>	<b>17 864 921</b>	<b>21 867 568</b>

##### 2022

	Heritage sites	Memorials and statues	Artworks	Total
<b>Opening carrying value as at 01 July 2021</b>				
Cost	144 000	3 858 647	17 897 171	21 899 818
Accumulated impairment losses	-	-	(32 250)	(32 250)
	<b>144 000</b>	<b>3 858 647</b>	<b>17 864 921</b>	<b>21 867 568</b>
<b>Closing carrying value as at 30 June 2022</b>	<b>144 000</b>	<b>3 858 647</b>	<b>17 864 921</b>	<b>21 867 568</b>

#### 12.2 Restrictions on heritage assets

There are no restrictions on any class of heritage assets owned by the municipality.

#### 12.3 Heritage assets pledged as security

No heritage assets are pledged as security.

#### Age and/or condition of heritage assets

The majority of the heritage assets have a condition grading of 3 which translates to fair as per the municipality's generic condition assessment methodology.

#### Heritage assets borrowed from other entities

No heritage assets are borrowed from other entities.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand

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### 12. Heritage assets (continued)

#### Heritage assets on loan to other entities

No heritage assets are loaned to other entities.

#### Contractual commitments for the acquisition, maintenance and restoration of heritage assets

No amount included in the commitments amount as reflected in the respective note relate to heritage assets.

#### Compensation from third parties

No compensation from third parties were received as no items of heritage assets were impaired, lost or given up.

#### Heritage assets used for more than one purpose

The assets are only used for heritage use and no other purpose.

#### Fair value of heritage assets (measured at cost less accumulated impairment losses)

As the fair values are not materially different from the cost of the heritage assets together with the fact that there are no fluctuation in the carrying values of both years, the fair values are not separately disclosed.

#### Heritage assets which fair values cannot be reliably measured

The following categories of heritage assets could not be measured reliably and are kept in separate lists other than the heritage assets register:

- One asset: Artist could not be traced.
- Assets received as donation from Wits Art Museum.
- Assets brought by local artist for exhibition purposes.
- Art work produced by Bakone Malapa labourers including cultural demonstrative items.

#### Expenditure incurred to repair and maintain heritage assets

There were no expenditure incurred relating to repairs and maintenance of heritage assets during the year.

#### Heritage assets under construction

There are no heritage assets currently under construction.

#### Held for disposal

There are no heritage assets currently held for disposal.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand		2023	2022	
<b>13. Intangible assets</b>				
<b>13.1 Reconciliation of carrying value</b>				
<b>2023</b>				
		Computer software	Service, operating and land rights	Total
<b>Opening carrying value as at 01 July 2022</b>				
Cost		58 565 696	1 304 768	59 870 464
Accumulated depreciation and impairment		(21 291 554)	-	(21 291 554)
		<b>37 274 142</b>	<b>1 304 768</b>	<b>38 578 910</b>
Additions from acquisitions		94 448	-	94 448
Amortisation	39	(3 579 782)	-	(3 579 782)
		<b>(3 485 334)</b>	<b>-</b>	<b>(3 485 334)</b>
<b>Closing carrying value as at 30 June 2023</b>		<b>33 788 808</b>	<b>1 304 768</b>	<b>35 093 576</b>
Cost		58 660 144	1 304 768	59 964 912
Accumulated amortisation and impairment		(24 871 336)	-	(24 871 336)
		<b>33 788 808</b>	<b>1 304 768</b>	<b>35 093 576</b>
<b>2022</b>				
		Computer software	Service, operating and land rights	Total
<b>Opening carrying value as at 01 July 2021</b>				
Cost		59 623 247	1 304 768	60 928 015
Accumulated depreciation and impairment		(17 082 950)	-	(17 082 950)
		<b>42 540 297</b>	<b>1 304 768</b>	<b>43 845 065</b>
Additions from acquisitions		90 980	-	90 980
Amortisation	39	(5 350 221)	-	(5 350 221)
		<b>(5 259 241)</b>	<b>-</b>	<b>(5 259 241)</b>
<b>Carrying value of disposals / transfers</b>				
Cost		(1 148 531)	-	(1 148 531)
Accumulated depreciation and impairment		1 141 618	-	1 141 618
		<b>(6 913)</b>	<b>-</b>	<b>(6 913)</b>
<b>Closing carrying value as at 30 June 2022</b>		<b>37 274 143</b>	<b>1 304 768</b>	<b>38 578 911</b>
Cost		58 565 696	1 304 768	59 870 464
Accumulated amortisation and impairment		(21 291 553)	-	(21 291 553)
		<b>37 274 143</b>	<b>1 304 768</b>	<b>38 578 911</b>

There are no intangible assets work in progress that are halted, delayed or taking a significantly long time to be developed in the current financial year.

### 13.1.1 Intangible assets with indefinite useful lives

The following intangible assets have been assessed to have indefinite useful lives:

Other intangible assets	26 536 371	178 993 943
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# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
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### 13. Intangible assets (continued)

Polokwane Municipality has servitudes as part of their intangible assets as contained within their records. These servitudes are assessed as having an indefinite useful life. The reason supporting this assessment is as follows:

The right of way/servitude merely exists because the asset exists and the need of service exists. Therefore, the servitude will continue to exist until such time as the need for the service (addressed through the associated infrastructure asset itself) no longer exists. In fact, the ability to operate and maintain this asset is dependent on the existence of this right, this need is confirmed through the inclusion of section 101 of the Municipal Systems Act which governs municipal rights to access premises.

An increase in the current year of intangible assets with indefinite useful lives amounting to R94 448 was realised.

#### Service, operating and land rights - Carrying amount: R1 304 768

These are rights that are acquired under a once off transaction and that will be enforceable in the foreseeable future without requiring any additional payments or renewals.

#### Computer Software - Carrying amount: R25 364 713

These are software acquired by the municipality, which can be used indefinitely until the municipality does not need them, without requiring additional fees. The period over which the municipality can use the software is not linked to the length of a contract with the service provider.

### 13.2 Intangible assets contractual commitments

There is no contractual commitment for the acquisition, development or disposal of intangible assets.

### 13.3 Restrictions on intangible assets

There are no title restrictions for any of the municipal intangible assets.

### 13.4 Intangible assets pledged as security

No intangible assets are pledged as security.

### 13.5 Impairment

There is no impairment for intangible assets for the current (and prior) financial year.

### 13.6 Research and development expenditure

There was no expenditure incurred for the research and development of intangible assets during the current financial year.

### 13.7 Review of useful lives

In the current year, useful lives were reviewed for intangible assets that are nearing the end of their useful lives. The remaining useful lives were allocated based on the users intention to continue with the use of the assets. The impact is immaterial.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand		2023	2022		
<b>14. Investment in subsidiary</b>					
<b>14.1 Investment in subsidiary</b>					
Name of associate	Principal activities of associate	Interest held 2023	Interest held 2022	Fair value of Investment* 2023	Fair value of Investment* 2022
Polokwane Housing Association	Provision of low cost rental housing	100.00 %	100.00 %	1 000	1 000

### 14.1.1 Reconciliation of carrying value

Opening carrying value	1 000	1 000
New investments	-	-
Disposals	-	-
<b>Closing carrying value</b>	<b>1 000</b>	<b>1 000</b>

## 15. Long-term receivables

### 15.1 Long term receivables

A policy exists which grants consumer debtors an opportunity to make arrangements to pay off their arrear debt over a period of 12, 24 or 36 months with a deposit payable.

### 15.2 Long term receivables

	2023			2022		
	Gross	Impairment	Total	Gross	Impairment	Total
Housing selling schemes	-	-	-	144 352	(144 352)	-

## 16. Living resources

### 16.1 Reconciliation of carrying value

	2023		2022	
	Game	Total	Game	Total
<b>Opening carrying value at 01 July 2022</b>				
Cost	5 912 645	5 912 645	4 450 352	4 450 352
Additions	406 201	406 201	-	-
Disposals	(2 659 877)	(2 659 877)	-	-
Revaluation adjustments	5 709 493	5 709 493	1 462 293	1 462 293
	<b>3 455 817</b>	<b>3 455 817</b>	<b>1 462 293</b>	<b>1 462 293</b>
<b>Closing carrying value as at 30 June 2023</b>				
Cost	9 368 462	9 368 462	5 912 645	5 912 645

The municipality has 817 matured animals and 34 immature animals at the end of the reporting period (2022: 1 315) which are managed and protected in terms of the National Environment Management Act as well as the Protected Area Act.

### 16.2 Living resources that are borrowed from or on loan to other entities

There are no living resources which are borrowed from or loaned to other entities.



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>16. Living resources (continued)</b>		
<b>16.3 Restrictions on living resources</b>		
There are no restrictions with regards to the municipality's ability to sell the animals. Animals are traded during hunting season when the carrying capacity of the game reserve is exceeded, while protecting endangered species.		
<b>16.4 Living resources pledged as security</b>		
No living resources are pledged as security.		
<b>16.5 Living resources contractual commitments</b>		
There is no contractual commitment for acquisition, development or disposal of living and non living resources.		
<b>16.6 Compensation from third parties</b>		
There was no compensation for impairment, losses and resources given up for the financial year.		
<b>16.7 Revaluations</b>		
Living resources are revalued every third financial year, with the latest revaluation done in the 2022-23 financial year. The municipality has previously experienced challenges relating to measurement of the fair value of the living resources, in particular those species which has a low market activity.		
The impact of adopting the Standard of GRAP 110 for living and non living resources is immaterial. The impact of the change is the amount reflected in the note above.		
<b>17. Consumer deposits</b>		
Electricity	45 154 411	46 470 559
Rental properties	9 778 334	9 713 474
Water	11 861 405	11 162 042
<b>Total</b>	<b>66 794 150</b>	<b>67 346 075</b>
<b>18. Trade and other trade and other payables</b>		
Affiliates, related parties and associated companies	18.1 3 311 152	3 311 152
Bulk purchases	18.2 127 471 915	137 247 449
Contractors	18.3 141 871 449	144 424 868
Control and clearing accounts	18.4 17 085 962	29 950 551
Employee benefits	18.5 21 292 684	20 647 467
Other payables	18.6 302 245 014	493 481 099
<b>Total</b>	<b>613 278 176</b>	<b>829 062 586</b>
Current	613 278 176	829 062 586
<b>18.1 Affiliates, related parties and associated companies</b>		
Capricorn District Municipality	3 311 152	3 311 152
<b>18.2 Bulk purchases</b>		
Bulk water	21 551 747	23 261 463
Bulk electricity	105 920 168	113 985 986
<b>Total</b>	<b>127 471 915</b>	<b>137 247 449</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>18. Trade and other trade and other payables (continued)</b>		
<b>18.3 Contractors</b>		
Retentions	141 871 449	144 424 868
<b>18.4 Control and clearing accounts</b>		
Prepaid electricity	16 466 919	29 157 536
Salary Control	619 043	793 015
<b>Total</b>	<b>17 085 962</b>	<b>29 950 551</b>
<b>18.5 Employee benefits</b>		
Bonus	21 292 684	20 647 467
<b>18.6 Other payables</b>		
Auditor-General of South Africa	166 888	1 469 515
Payables and accruals	194 369 680	345 529 005
Unallocated deposits	21 077 600	58 144 881
Advance payments	86 630 846	88 337 698
<b>Total</b>	<b>302 245 014</b>	<b>493 481 099</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand

### 19. Unspent conditional grants and receipts

	2023				2022			
	Opening balance	Funds received	Funds utilised	Closing balance	Opening balance	Funds received	Funds utilised	Closing balance
<b>Capital</b>								
Monetary allocations	200 611 824	636 621 214	(757 110 006)	80 123 032	168 587 771	509 975 896	(712 429 448)	(33 865 781)
<b>Operational</b>								
Monetary allocations	(44 803 604)	187 225 661	(196 773 123)	(54 351 066)	(88 050 178)	437 108 690	(159 384 510)	189 674 002
<b>Total</b>	<b>155 808 220</b>	<b>823 846 875</b>	<b>(953 883 129)</b>	<b>25 771 966</b>	<b>80 537 593</b>	<b>947 084 586</b>	<b>(871 813 958)</b>	<b>155 808 221</b>

### 2023

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023		2022		
<b>19. Unspent conditional grants and receipts (continued)</b>					
	Opening balance	Funds received	Funds surrendered	Funds utilised	Total
Integrated National Electrification Programme Grant	6 949 177	33 000 000	(6 949 177)	(32 532 313)	467 687
Neighbourhood Development Partnership Grant	22 686 122	25 088 000	(16 663 162)	(26 136 732)	4 974 228
Energy Efficiency and Demand Side Management Grant	85 226	1 000 000	(85 226)	(1 000 000)	-
Public Transport Network Grant	71 428 598	166 506 000	(71 428 598)	(154 235 075)	12 270 925
Regional Bulk Infrastructure Grant	28 319 399	134 584 000	(28 319 399)	(134 584 000)	-
Water Services Infrastructure Grant	12 553 041	63 124 000	(12 553 040)	(63 124 000)	1
Municipal Disaster Relief Grant	84	4 500 000	-	-	4 500 084
Integrated Urban Development Grant	10 124 399	376 044 000	-	(386 168 399)	-
Local Government Financial Management Grant	303	2 400 000	-	(2 400 303)	-
Infrastructure Skill Development Grant	-	6 000 000	-	(6 000 000)	-
Expanded Public Works Programme	-	11 570 000	-	(11 570 000)	-
Capricorn District Municipality	17 589	-	-	-	17 589
Department of Local Government and Housing	2 949 709	-	-	-	2 949 709
Local Government - Housing accreditation	560 868	30 875	-	-	591 743
Department of Sports Art and Culture	133 704	-	(133 704)	-	-
	<b>155 808 219</b>	<b>823 846 875</b>	<b>(136 132 306)</b>	<b>(817 750 822)</b>	<b>25 771 966</b>

**2022**

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand			2023	2022	
<b>19. Unspent conditional grants and receipts (continued)</b>					
	Opening balance	Funds received	Funds surrendered	Funds utilised	Total
Integrated National Electrification Programme Grant	561 112	28 000 000	-	(21 611 934)	6 949 178
Neighbourhood Development Partnership Grant	882	48 000 000	-	(25 314 760)	22 686 122
Energy Efficiency and Demand Side Management Grant	-	6 000 000	-	(5 914 774)	85 226
Public Transport Network Grant	29 730 676	178 544 000	(29 730 676)	(107 115 403)	71 428 597
Regional Bulk Infrastructure Grant	11 802 110	218 806 000	(310 266)	(201 978 445)	28 319 399
Water Services Infrastructure Grant	6 793 122	50 000 000	(4 678 613)	(39 561 468)	12 553 041
Municipal Disaster Relief Grant	-	2 600 000	-	(2 599 916)	84
Integrated Urban Development Grant	27 689 894	397 532 000	(22 311 723)	(392 785 771)	10 124 400
Local Government Financial Management Grant	446 216	2 400 000	(446 216)	(2 399 697)	303
Infrastructure Skills Development Grant	-	6 217 000	-	(6 217 000)	-
Expanded Public Works Programme	-	7 971 000	-	(7 971 000)	-
Capricorn District Municipality	17 589	-	-	-	17 589
Department of Local Government and Housing	2 949 709	-	-	-	2 949 709
Local Government - Housing Accreditation	546 282	14 586	-	-	560 868
Department of Sports, Art and Culture	-	1 000 000	-	(866 295)	133 705
	<b>80 537 592</b>	<b>947 084 586</b>	<b>(57 477 494)</b>	<b>(814 336 463)</b>	<b>155 808 221</b>

### Reconciliation of Funds surrendered

#### Heading

Paid back to National Treasury	135 998 602	57 477 494
Paid back to Provincial Government	133 704	-
	<b>136 132 306</b>	<b>57 477 494</b>

### 20. Borrowings

#### Total borrowings

Annuity and Bullet Loans	372 776 892	395 364 727
<b>Less: Current portion transferred to current liabilities</b>		
Annuity and Bullet Loans	(25 088 400)	(22 587 835)
<b>Non-current borrowings</b>	<b>347 688 492</b>	<b>372 776 892</b>

#### 20.1 Summary of arrangements

The Municipality had entered into a loan agreement with the Development Bank of Southern Africa in March 2017 to borrow R235 million at a interest rate of 10.756% over 14.92 years. The last instalment is repayable on 31 January 2032.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>20. Borrowings (continued)</b>		
The Municipality had entered into a loan agreement with Standard Bank in January 2018 to borrow R205 million at a interest rate of 10.98% over 15years. The last instalment is repayable on 31 January 2032.		
<b>21. Finance Lease liabilities</b>		
<b>21.1 Carrying value of finance lease liabilities</b>		
<b>2023</b>		
	Amortised cost	Total
<b>Carrying value as at 30 June 2023</b>		
Finance lease liability	25 629 451	25 629 451
Transferred to current liabilities	(21 052 712)	(21 052 712)
<b>Total non-current liabilities</b>	<b>4 576 739</b>	<b>4 576 739</b>
<b>2022</b>		
	Amortised cost	Total
<b>Carrying value as at 30 June 2022</b>		
Finance lease liability	22 784 472	22 784 472
Transferred to current liabilities	(8 215 040)	(8 215 040)
<b>Total non-current liabilities</b>	<b>14 569 432</b>	<b>14 569 432</b>
It is municipality policy to lease certain motor vehicles, cellphones and photocopiers under finance leases.		
The vehicle lease contracts were signed with ABSA over a period of 5 years.		
The cellphone lease contracts were signed with Telkom over a period of 2 years.		
The photocopier contracts were signed with DIDO over a period of 3 years.		
<b>21.2 Finance lease payable</b>		
<b>The municipality as lessee</b>		
The obligations under finance leases are as follows:		
<b>Total future minimum lease payments</b>		
Within 1 year	22 622 931	11 512 085
2 to 5 years	4 956 534	14 856 844
<b>Total minimum lease payments</b>	<b>27 579 465</b>	<b>26 368 929</b>
Less: Unearned finance revenue	(1 950 014)	(3 584 457)
	<b>25 629 451</b>	<b>22 784 472</b>
<b>Present value of minimum lease payments</b>		
Within 1 year	21 052 712	8 215 040
2 to 5 years	4 576 739	14 569 432
	<b>25 629 451</b>	<b>22 784 472</b>
<b>22. Provisions</b>		
Landfill sites	22.1 117 269 606	125 456 774
Litigation	22.2 -	8 177 040
<b>Closing balance</b>	<b>117 269 606</b>	<b>133 633 814</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>22. Provisions (continued)</b>		
Transferred to current provisions	-	(10 504 499)
<b>Total non-current provisions</b>	<b>117 269 606</b>	<b>123 129 315</b>
Non-current	117 269 606	123 129 315
Current	-	10 504 499
<b>Total</b>	<b>117 269 606</b>	<b>133 633 814</b>
<b>22.1 Landfill sites</b>		
Opening Balance	125 456 774	139 553 046
Change in landfill closure provision	(19 951 164)	(23 967 557)
Interest cost	11 763 996	9 871 285
<b>Closing balance</b>	<b>117 269 606</b>	<b>125 456 774</b>
Transferred to current provisions	-	(2 327 459)
<b>Total non-current provision</b>	<b>117 269 606</b>	<b>123 129 315</b>

The landfill rehabilitation provision is created for the rehabilitation of Aganang and Weltevreden landfill site which is evaluated at each year-end to reflect the best estimate at reporting date. The valuation for the landfill site was performed by a team from **Environmental and Sustainability Solutions CC** consisting of Mr Seakle Godschalk MSc(Zoology) with the following qualifications: MCom(Accounting), SAIEES, CIGFARO, SACNASP and Maryna Mohr with the following qualifications: DTech (Environmental Management), MBA. The warranty provision represents management's best estimate of the liability under one period warranties granted on (electrical) (products), based on (prior experience) (and) (industry averages for defective products).

### Key financial assumptions used in this calculation were as follows:

#### Weltevreden landfill

CPI - 6.1716%  
Discount rate - 10.6716%  
Net effective discount rate - 4.5%

#### Aganang landfill.]

CPI - 6.1716%  
Discount rate - 11.4216%  
Net effective discount rate - 5.25%

The approximate size used as at 30 June 2023 is 378 726 square metres for Weltevreden. The total area of the landfill is 298 314 square metres at the Aganang landfill site.

### Remaining useful life:

Weltevreden: 3 years  
Aganang: 48 years

The disclosed amount of R117 269 559 represents a net decrease of R8 187 168 from the provision of R125 456 727 in the previous financial year. The factors that cause a decrease in the closure provision relates to changes in the CPI, discount rate and unit costs amounting to R19 951 164. The interest charge relating to the assessment amounts to R11 763 996.

The corresponding asset is measured using the revaluation model.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>22. Provisions (continued)</b>		
<b>22.2 Litigation</b>		
Opening Balance	8 177 040	8 177 040
Reductions (Payments, remeasurement etc.)	(8 177 040)	-
<b>Closing balance</b>	<b>-</b>	<b>8 177 040</b>
Transferred to current provisions	-	(8 177 040)
<b>Total non-current provision</b>	<b>-</b>	<b>-</b>

### Provision for Fleet Africa

This provision is due to a dispute on the invoices raised by Fleet Africa to the municipality for services rendered. Fleet Africa therefore took the matter to court. The timing of the outflow is uncertain on this matter.

### 23. Employee benefits

#### Non-current employee benefits

Post employment health care benefits	23.1	214 847 000	188 093 000
Ex-Gratia pension benefits	23.2	13 583 000	14 355 000
Long-service award benefits	23.3	60 699 000	58 512 000
Staff leave	23.4	108 015 611	144 626 008
		<b>397 144 611</b>	<b>405 586 008</b>

#### Current employee benefits

Staff leave	23.4	9 116 740	11 902 119
<b>Total employee benefits</b>		<b>406 261 351</b>	<b>417 488 127</b>

#### 23.1 Post employment health care benefits

The municipality provides certain post-retirement medical benefits by funding the medical aid contributions of qualifying retired members of the municipality. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current conditions of service) is entitled to remain a continued member of such medical aid fund on retirement, in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operates an unfunded defined benefit plan for these qualifying employees.

	Number	
In-service members (Employees)	1 197	1 107
Continuation members (Retirees)	813	784
In service employees (Non-members)	132	74
<b>Total members</b>	<b>2 142</b>	<b>1 965</b>

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

In-service members (Employees)	145 268 000	140 426 000
Continuation members (Retirees)	69 579 000	47 667 000
<b>Total liability</b>	<b>214 847 000</b>	<b>188 093 000</b>
Non-current	214 847 000	188 093 000

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

- Bonitas
- Hosmed
- Key Health
- LA Health
- Fed Health
- Samwumed

The Future-service Cost for the ensuing year is estimated to be R 9 429 000 whereas the Interest Cost is estimated to be R 27 828 000.



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand 2023 2022

### 23. Employee benefits (continued)

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

#### Rates of interest

Discount rate	Yield curve	Yield curve
Consumer Price Inflation (CPI)	Difference between nominal and yield curve	Difference between nominal and yield curve
Medical aid contribution inflation	CPI+1%	CPI+1%
Net effective discount rate	Yield curve based	Yield curve based

GRAP 25 defines the determination of the Discount Rate Assumption to be used as follow:

'The discount rate that reflects the time value of money is best approximated by reference to market yields at the reporting date on government bonds. Where there is no deep market in government bonds with a sufficiently long maturity to match the estimated maturity of all the benefit payments, an entity uses current market rates of the appropriate term to discount shorter term payments, and estimates the discount rate for longer maturities by extrapolating current market rates along the yield curve.'

The Actuaries used the nominal and real zero curves as at 30 June 2023 supplied by the JSE to determine the discount rates and CPI assumptions at each relevant time period.

#### Mortality rates

Mortality before retirement has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. Mortality post-employment (for pensioners) has been based on the PA (90) ultimate mortality tables. No explicit assumption was made about additional mortality or health care costs due to AIDS. Furthermore, no updates were made for the impact of COVID 19 as there is insufficient evidence to suggest that it would have an impact on mortality rates in the future.

#### Normal and average retirement age

The average retirement age for all active employees was assumed to be 63 years. This assumption implicitly allows for ill-health and early retirements. The normal retirement age (NRA) for all active employees was assumed to be 65 years.

#### Amounts recognised in the statement of financial position

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

Present value of unfunded obligations	<u>214 847 000</u>	<u>188 093 000</u>
---------------------------------------	--------------------	--------------------

#### Amounts recognised in the statement of financial performance

The amounts recognised in the statement of financial performance is as follows:

Current service cost	9 858 000	9 435 000
Interest cost	22 505 000	21 956 000
Actuarial loss/ (gain) recognised in the year	1 756 927	(40 730 521)
<b>Total post-retirement benefit included in employee related costs</b>	<b>36 <u>34 119 927</u></b>	<b><u>(9 339 521)</u></b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>23. Employee benefits (continued)</b>		
<b>Movement in the present value of the defined benefit obligation</b>		
Opening balance	188 093 000	204 408 000
Current service cost	9 858 000	9 435 000
Interest cost	22 505 000	21 956 000
Actual employer benefit payments	(7 365 927)	(6 975 479)
Actuarial loss/(gain) recognised in the year	1 756 927	(40 730 521)
	<b>214 847 000</b>	<b>188 093 000</b>

### History of present value of unfunded defined benefit

	2019	2020	2021	2022	2023
Present value of defined benefit obligation	193 906 000	197 335 000	204 408 000	188 093 000	214 847 000

### Sensitivity Analysis

The effect of a 1% movement in the assumed rate of medical aid inflation is as follows:

	+1% Increase	-1% Decrease
Effect on the defined benefit obligation	239 083 000	191 874 000
Effect on the aggregate of the interest cost	31 062 000	24 768 000
Effect on the aggregate of the current service cost	11 055 000	7 954 000

The effect of a 20% movement in the assumed mortality rates are as follow on the ensuing years assumptions:

	+20% Mortality rate	-20% Mortality rate
Total accrued liability	200 569 000	231 994 000
Effect on the aggregate of the interest cost	25 940 000	30 095 000
Effect on the aggregate of the current service cost	8 734 000	10 254 000

ZAQ Consultants and Actuaries were the appointed actuaries for the year ending 30 June 2023.

### 23.2 Ex-Gratia pension benefits

Provision for ex-gratia pension benefits	23.2.1	13 583 000	14 355 000
Non-current		13 583 000	14 355 000

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>23. Employee benefits (continued)</b>		
<b>23.2.1 Provision for ex-gratia pension benefits</b>		
<b>Movements in the present value of the defined benefit obligation</b>		
Opening Balance	14 355 000	11 630 000
Interest	1 723 000	1 424 000
Current service cost	1 134 000	859 000
Actual employer benefit payments	(1 173 367)	(918 487)
Actuarial (gain)/loss recognised in the year	(2 455 633)	1 360 487
<b>Closing balance</b>	<b>13 583 000</b>	<b>14 355 000</b>

### Key assumptions

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

To obtain the applicable discount rate, the implied duration of the liability to obtain an appropriate interest rate on the yield curve is used. The nominal and real zero curves as at 30 June 2023 supplied by the JSE is used to determine the discounted rates and CPI assumptions is used.

The discount rate used is 12.96%. (Net effective discount rate: 12.22%).

The consumer price inflation value used is 7.52%

Net effective discount rate: 5.06%

The normal retirement age is 65 years while the average retirement age used is 63 years in order to implicitly allow for ill health and early retirements.

Mortality rate used has been based on the SA 85-90 mortality tables. These are the most commonly used tables in the industry. No updates are made for the impact of COVID 19 as there is insufficient evidence that it would have an impact on mortality rates in the future.

### Sensitivity analysis

The effect of a 1% movement in the assumed rate of inflation is as follows:

	1% Decrease	1% Increase
Effect on the interest cost	1 547 000	1 925 000
Effect on current service cost	858 000	1 112 000
Effect on the defined benefit obligation	12 292 000	15 075 000

### 23.3 Long-service award benefits

Provision for long-service award benefits	23.3.1	60 699 000	58 512 000
Non-current		60 699 000	58 512 000

#### 23.3.1 Provision for long-service award benefits

##### Movements in the present value of the defined benefit obligation

Opening Balance	58 512 000	54 512 000
Interest cost	6 665 000	4 719 000
Current cost	5 144 000	5 061 000
Benefits paid	(181 969)	(283 489)
Actuarial (gain)/loss	(9 440 031)	(5 496 511)
<b>Closing balance</b>	<b>60 699 000</b>	<b>58 512 000</b>

Discount rate: Yield curve

CPI: Difference between nominal and real yield curve

Normal salary increase rate: CPI+1%

Net effective discount rate: Yield curve based

### Sensitivity analysis

The effect of a 1% movement in the normal salary rates are as follow on the ensuing years assumptions:

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>23. Employee benefits (continued)</b>		
	1% Decrease	1% Increase
Effect on the defined benefit obligation	57 361 000	64 338 000
Effect on the aggregate of the current service cost	4 497 000	5 382 000
Effect on the aggregate of the interest cost	6 251 000	7 047 000
The effect of a 20% movement in the withdrawal rates are as follow on the ensuing years assumptions:		
	-20% Withdrawal rate	+20% Withdrawal rate
Effect on the defined benefit obligation	63 248 000	58 347 000
Effect on the aggregate of the current service cost	5 314 000	4 759 000
Effect on the aggregate of the interest cost	6 924 000	6 361 000
<b>23.4 Staff leave</b>		
Provision for staff leave	23.4.1 117 132 351	156 528 127
Less: Transfer to current portion	(9 116 740)	(11 902 119)
<b>Total non-current benefit</b>	<b>108 015 611</b>	<b>144 626 008</b>
Current	9 116 740	11 902 119
Non-current	108 015 611	144 626 008
<b>Total liability</b>	<b>117 132 351</b>	<b>156 528 127</b>
<b>23.4.1 Provision for staff leave</b>		
<b>Movements in the present value of the defined benefit obligation</b>		
Opening Balance	156 528 127	155 900 323
Increases	-	7 461 804
Reductions (Payments, remeasurement etc.)	(36 610 397)	(6 834 000)
Reversals	(2 785 379)	-
<b>Closing balance</b>	<b>117 132 351</b>	<b>156 528 127</b>
<b>Sub-heading</b>		
<b>Sub-heading</b>		
<b>24. Revaluation Reserve</b>		
Revaluation reserve	10 242 353 680	7 483 281 096
<b>Reconciliation of Revaluation reserve</b>		
Opening balance	7 483 281 096	7 625 185 397
Revaluation for the year	2 759 072 584	(141 904 301)
	<b>10 242 353 680</b>	<b>7 483 281 096</b>

Refer to Statement of changes in net assets for more detail and the movement on Reserves.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand		2023	2022
<b>25. Property rates</b>			
Agricultural property		13 903	-
Business and commercial properties		246 252 249	242 078 617
Farm properties		11 520 471	7 647 507
Industrial properties		59 815 852	54 996 237
Public benefit organisations		361 901	(2 077 155)
Public service infrastructure properties		319 165	336 368
Residential properties		233 954 755	206 739 191
Small Holdings		-	5 389
State-owned properties		21 103 192	18 322 434
<b>Total</b>		<b>573 341 488</b>	<b>528 048 588</b>
<b>26. Government grants and subsidies</b>			
<b>Operational</b>			
Monetary allocations or revenue	26.1	1 403 549 423	1 215 946 288
<b>Capital</b>			
Allocations in-kind	26.2	576 297	-
Monetary allocations or revenue	26.3	612 012 650	655 398 170
<b>Total transfers and subsidies: Capital</b>		<b>612 588 947</b>	<b>655 398 170</b>
<b>Total</b>		<b>2 016 138 370</b>	<b>1 871 344 458</b>
<b>26.1 Monetary allocations or revenue: Operational</b>			
National Treasury - conditional grants		205 738 170	158 071 998
National Treasury - equitable share		1 196 549 603	1 055 884 494
Public contributions and donations		1 261 650	1 123 500
Provincial government		-	866 296
<b>Total</b>		<b>1 403 549 423</b>	<b>1 215 946 288</b>
<b>Revenue recognised per grant</b>			
Expanded Public Works Programme Integrated Grant		11 570 000	7 971 000
Infrastructure Skills Development Grant		6 000 000	6 217 000
Local Government Financial Management Grant		2 055 303	2 399 697
Water Services Infrastructure Grant		11 511 012	-
Public Transport Network Grant		78 525 573	64 473 973
Integrated National Electrification Programme Grant		4 188 727	9 891 728
Integrated Urban Development Grant		91 887 555	67 118 600
		<b>205 738 170</b>	<b>158 071 998</b>
<b>26.2 Allocations in-kind: Capital</b>			
Private enterprises		576 297	-
<b>26.3 Monetary allocations: Capital</b>			
National government		612 012 650	655 398 170
<b>Revenue recognised per grant</b>			

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>26. Government grants and subsidies (continued)</b>		
Integrated National Electrification Programme Grant	28 343 585	11 720 207
Neighbourhood Development Partnership Grant	26 136 732	25 314 760
Local Government Finance Management Grant	345 000	-
Municipal Disaster Recovery Grant	-	2 599 916
Energy Efficiency and Demand Side Management Grant	1 000 000	5 914 774
Water Services Infrastructure Grant	51 612 988	39 561 468
Public Transport Network Grant	75 709 501	42 641 429
Regional Bulk Infrastructure Grant	134 584 000	201 978 445
Integrated Urban Development Grant	294 280 844	325 667 171
	<b>612 012 650</b>	<b>655 398 170</b>

### Analysis of donations received in kind

Included in the donations amount that are donations received in kind. Refer to the table below for the respective details:

Clear view fence	96 111	-
Jojo tanks	217 156	-
Pressure reducing valve	263 030	-
	<b>576 297</b>	<b>-</b>

### Analysis of cash donations

Mayors charity fund	1 211 650	1 123 500
Marathon	50 000	-
	<b>1 261 650</b>	<b>1 123 500</b>

### 26.1 Equitable share

Balance unspent at the beginning of the year	-	-
Current year allocation	1 060 551 000	998 407 000
Offset December tranche - roll overs not approved	135 998 603	57 477 494
	<b>1 196 549 603</b>	<b>1 055 884 494</b>

This grant is an unconditional grant and is partially utilized for the provision of indigent support through basic service delivery.

### 26.2 Finance Management Grant

Balance unspent at beginning of the year	303	446 216
Current year receipts	2 400 000	2 400 000
Conditions met - transferred to revenue	(2 400 303)	(2 399 697)
Paid back to National Treasury	-	(446 216)
	<b>-</b>	<b>303</b>

This grant was used to promote and support reforms to municipal financial management and the implementation of the MFMA, 2003. The conditions of the grant were met. No funds have been withheld.

### 26.3 Public Transport Network Grant

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>26. Government grants and subsidies (continued)</b>		
Balance unspent at the beginning of the year	71 428 599	29 730 677
Current year receipts	166 506 000	178 544 000
Conditions met - transferred to revenue	(154 235 075)	(107 115 402)
Paid back to National Treasury	(71 428 598)	(29 730 676)
	<b>12 270 926</b>	<b>71 428 599</b>
The grant was used for public transport and non motorised transport infrastructure.		
<b>26.4 Municipal Disaster Relief Grant</b>		
Balance at the beginning of the year	84	-
Current year receipts	4 500 000	2 600 000
Conditions met - transferred to revenue	-	(2 599 916)
	<b>4 500 084</b>	<b>84</b>
<b>26.5 Limpopo Provincial Government</b>		
Balance unspent at the beginning of the year	2 949 710	2 949 710
The grant was utilised in the planning phase of the Convention Centre.		
<b>26.6 Limpopo Local Government and Housing</b>		
Balance unspent at the beginning of the year	560 868	546 282
Current year receipts	30 875	14 586
	<b>591 743</b>	<b>560 868</b>
The grant was used to fund the housing accreditation process.		
<b>26.7 Integrated National Electrification Programme Grant</b>		
Balance unspent at the beginning of the year	6 949 177	561 113
Current year receipts	33 000 000	28 000 000
Conditions met - transferred to revenue	(32 532 313)	(21 611 936)
Paid back to National Treasury	(6 949 177)	-
	<b>467 687</b>	<b>6 949 177</b>
The grant was used to fund projects to address the electrification backlogs in rural areas.		
<b>26.8 Capricorn District Municipality</b>		
Balance unspent at the beginning of the year	17 589	17 589
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
	<b>17 589</b>	<b>17 589</b>
<b>26.9 Expanded Public Works Programme Incentive Grant</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	11 570 000	7 971 000
Conditions met - transferred to revenue	(11 570 000)	(7 971 000)
	<b>-</b>	<b>-</b>
The grant was used to fund projects in order to maximise job creation and skills development.		

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>26. Government grants and subsidies (continued)</b>		
<b>26.10 Neighbourhood Development Partnership Grant</b>		
Balance unspent at the beginning of the year	22 686 122	881
Current year receipts	25 088 000	48 000 000
Conditions met - transferred to revenue	(26 136 732)	(25 314 760)
Paid back to National Treasury	(16 663 162)	-
	<b>4 974 228</b>	<b>22 686 121</b>
The grant was used to fund projects in order to provide community infrastructure to improve quality of life of residents in townships.		
<b>26.11 Skills Development Fund</b>		
Balance unspent at the beginning of the year	-	-
Current year receipts	6 000 000	6 217 000
Conditions met - transferred to revenue	(6 000 000)	(6 217 000)
	<b>-</b>	<b>-</b>
<b>26.12 Regional Bulk Infrastructure Grant</b>		
Balance unspent at the beginning of the year	28 319 400	11 802 111
Current year receipts	134 584 000	218 806 000
Conditions met - transferred to revenue	(134 584 000)	(201 978 445)
Paid back to National Treasury	(28 319 400)	(310 266)
	<b>-</b>	<b>28 319 400</b>
The grant was used to fund projects in order to provide bulk infrastructure to improve quality of life of residents.		
<b>26.13 Energy Efficiency and Demand Side Management Grant</b>		
Balance unspent at the beginning of the year	85 226	-
Current year receipts	1 000 000	6 000 000
Conditions met - transferred to revenue	(1 000 000)	(5 914 774)
Paid back to National Treasury	(85 226)	-
	<b>-</b>	<b>85 226</b>
The grant was used to reduce electricity consumption and improve energy efficiency.		
<b>26.14 Water Services Infrastructure Grant</b>		
Balance unspent at the beginning of the year	12 553 040	6 793 122
Current year receipts	63 124 000	50 000 000
Conditions met - transferred to revenue	(63 123 998)	(39 561 468)
Paid back to National Treasury	(12 553 040)	(4 678 613)
	<b>2</b>	<b>12 553 041</b>
The grant was used to fund projects in order to provide water infrastructure to improve quality of life of residents.		
<b>26.15 Integrated Urban Development Grant</b>		



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand		2023	2022
<b>26. Government grants and subsidies (continued)</b>			
Balance unspent at the beginning of the year		10 124 399	27 689 894
Current year receipts		376 044 000	397 532 000
Conditions met - transferred to revenue		(386 168 399)	(392 785 772)
Paid back to National Treasury		-	(22 311 723)
		<u>-</u>	<u>10 124 399</u>
<b>26.16 Department of Sports Arts and Culture</b>			
Balance unspent at the beginning of the year		133 704	-
Current year receipts		-	1 000 000
Conditions met - transferred to revenue		-	(866 296)
Paid back to the Department		(133 704)	-
		<u>-</u>	<u>133 704</u>
<b>27. Fines, penalties and forfeits</b>			
Fines	27.1	41 441 158	30 002 849
Forfeits	27.2	1 010 108	1 862 088
<b>Total</b>		<u>42 451 266</u>	<u>31 864 937</u>
<b>27.1 Fines</b>			
<b>Traffic fines</b>			
Municipal fines		32 276 325	17 838 804
<b>Other fines</b>			
Illegal connections		9 041 812	12 022 247
Law enforcement		30	11 799
Overdue books		6 816	1 125
Pound fees		116 175	128 874
		<u>9 164 833</u>	<u>12 164 045</u>
<b>Total</b>		<u>41 441 158</u>	<u>30 002 849</u>
<b>27.2 Forfeits</b>			
Retentions		888 530	1 768 920
Unclaimed money		121 578	93 168
<b>Total</b>		<u>1 010 108</u>	<u>1 862 088</u>
<b>28. Interest earned from receivables</b>			
Service charges	28.1	75 516 570	42 220 304
Property rates	28.2	40 925 649	28 231 142
<b>Total</b>		<u>116 442 219</u>	<u>70 451 446</u>
<b>28.1 Interest earned from exchange receivables</b>			
<b>Consumer receivables</b>			
Service charges		75 516 570	42 220 304
<b>Total</b>		<u>75 516 570</u>	<u>42 220 304</u>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>28. Interest earned from receivables (continued)</b>		
<b>28.2 Interest earned from non-exchange receivables</b>		
<b>Consumer receivables</b>		
Property rates	40 925 649	28 231 142
<b>29. Service charges</b>		
<b>Electricity</b>		
Other - Electricity	1 180 205 665	1 217 848 859
<b>Waste management</b>		
Other - Waste management	141 795 082	145 805 596
<b>Waste water management</b>		
Other - Waste water management	156 210 029	163 146 829
<b>Water</b>		
Other - Water	264 634 375	288 397 039
<b>Total service charges</b>	<b>1 742 845 151</b>	<b>1 815 198 323</b>
<b>30. Rental</b>		
Market related	24 238 686	27 511 056
Non-market related	10 318 774	1 106 882
<b>Total</b>	<b>34 557 460</b>	<b>28 617 938</b>
<b>30.1 Rental by asset class</b>		
<b>Market related</b>		
Property, plant and equipment		
• Community assets	24 238 686	27 511 056
<b>Non-market related</b>		
Property, plant and equipment		
• Other assets	15 336	31 182
	<b>15 336</b>	<b>31 182</b>
Investment property	10 303 438	1 075 700
<b>Total</b>	<b>10 318 774</b>	<b>1 106 882</b>
<b>Total rentals</b>	<b>34 557 460</b>	<b>28 617 938</b>
<b>30.2 Rental by type</b>		
<b>Market related</b>		
<b>Property, plant and equipment</b>		
Community assets		
• Ad-hoc rentals	13 754 713	12 350 084
• Straight-lined operating	10 483 973	15 160 972
	<b>24 238 686</b>	<b>27 511 056</b>
<b>Total</b>	<b>24 238 686</b>	<b>27 511 056</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>30. Rental (continued)</b>		
<b>Non-market related</b>		
<b>Property, plant and equipment</b>		
Other assets		
• Ad-hoc rentals	15 336	31 182
<b>Investment property</b>		
Ad-hoc rentals	10 303 438	1 075 700
<b>Total</b>	<b>10 318 774</b>	<b>1 106 882</b>
<b>31. Interests on investments</b>		
Bank accounts	17 812 550	9 640 821
Short-term investments and call accounts	21 002 446	-
<b>Total</b>	<b>38 814 996</b>	<b>9 640 821</b>
<b>32. Licences or permits</b>		
Exchange revenue	32.1 13 788 739	13 494 592
<b>32.1 Licenses and permits - Exchange revenue</b>		
Road and transport	13 781 297	13 464 819
Trading	7 442	29 773
<b>Total</b>	<b>13 788 739</b>	<b>13 494 592</b>
<b>33. Agency services</b>		
Public entities	134 796	-
Provincial	23 419 540	21 865 224
<b>Total</b>	<b>23 554 336</b>	<b>21 865 224</b>
<b>34. Operational revenue</b>		
Administrative Handling Fees	721 398	848 113
Arbor City Awards Competition	-	302 550
Commission	2 366 819	2 768 320
Incidental Cash Surpluses	36 583 862	-
Inspection fees	45 677	10 065
Recovery Maintenance	-	13 325
Request for information	48 831	112
Skills Development Levy Refund	1 750 820	-
Staff and Councillors Recoveries	19 103	21 266
<b>Total</b>	<b>41 536 510</b>	<b>3 963 751</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>35. Sales of goods and rendering of services</b>		
Academic Services	87 624	949 112
Advertisements	116 118	-
Application Fees for Land Usage	1 136 418	-
Building Plan Approval	8 405 139	8 420 920
Cemetery and Burial	1 205 213	1 472 997
Clearance Certificates	1 333 822	1 575 537
Development Charges	-	299 569
Entrance Fees	867 472	687 459
Escort Fees	149 690	-
Fire Services	131 054	54 450
Library Fees	19 371	36 937
Occupation Certificates	268 277	337 677
Parking Fees	-	435
Photo copies, Faxes and Telephone charges	10 362	294 322
Sale of Goods	386 910	6 019 649
Transport Fees	12 231 910	1 101 990
Weighbridge Fees	11 096	-
<b>Total</b>	<b>26 360 476</b>	<b>21 251 054</b>
<b>36. Employee related cost</b>		
Senior management	36.1 14 127 691	16 904 565
Municipal staff	36.2 1 057 888 492	1 009 845 793
<b>Total</b>	<b>1 072 016 183</b>	<b>1 026 750 358</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand

### 36. Employee related cost (continued)

#### 36.1 Senior management costs

##### 2023

	Municipal manager	Chief financial officer	Director Strategic, Planning, Monitoring and Evaluation	Director Community Services	Director Energy Services	Director Planning and Economic Development	Director Transportation and Services	Director Water and Sanitation	Director Corporate and Shared Services	Deputy Chief Financial Officer	Total
Basic salary	1 360 990	1 191 164	562 067	509 845	1 293 234	724 544	12 664	16 885	1 013 299	1 011 274	7 695 966
Service-related benefits	43 934	46 841	479 232	46 209	-	232 825	95 094	269 506	531 055	-	1 744 696
Allowances	528 000	787 912	222 706	199 209	490 685	260 974	21 089	28 261	502 768	489 899	3 531 503
Medical	35 392	52 967	-	25 035	-	25 205	-	-	-	-	138 599
Pension	242 729	-	80 375	98 072	237 587	105 119	-	-	56 848	182 029	1 002 759
Unemployment insurance	2 125	2 125	1 063	1 063	2 125	1 594	177	177	1 594	2 125	14 168
	<b>2 213 170</b>	<b>2 081 009</b>	<b>1 345 443</b>	<b>879 433</b>	<b>2 023 631</b>	<b>1 350 261</b>	<b>129 024</b>	<b>314 829</b>	<b>2 105 564</b>	<b>1 685 327</b>	<b>14 127 691</b>

##### 2022

	Municipal manager	Chief financial officer	Director Strategic, Planning, Monitoring and Evaluation	Director Community Services	Director Energy Services	Director Planning and Economic Development	Director Transportation and Services	Director Water and Sanitation	Director Corporate and Shared Services	Deputy Chief Financial Officer	Total
Basic salary	468 348	1 120 579	1 219 514	1 305 506	1 219 514	1 217 210	965 239	1 574 448	1 219 514	160 673	10 470 545
Bonuses	58 544	-	-	-	-	-	-	-	-	-	58 544
Service-related benefits	545 075	-	-	231 795	-	-	39 309	81 952	-	-	898 131
Allowances	182 131	704 543	452 249	452 249	429 735	408 107	301 500	368 231	598 592	77 819	3 975 156
Medical	7 253	51 138	-	-	-	51 138	-	52 509	-	-	162 038
Pension	84 303	-	202 627	202 627	225 141	202 244	135 085	185 741	56 285	28 921	1 322 974
Unemployment insurance	708	2 125	2 125	2 125	2 125	2 125	1 417	1 948	2 125	354	17 177
	<b>1 346 362</b>	<b>1 878 385</b>	<b>1 876 515</b>	<b>2 194 302</b>	<b>1 876 515</b>	<b>1 880 824</b>	<b>1 442 550</b>	<b>2 264 829</b>	<b>1 876 516</b>	<b>267 767</b>	<b>16 904 565</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
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### 36. Employee related cost (continued)

Additional information on acting allowances:

#### 2023 -

1. Included in the allowances for the Municipal Manager's salary is an amount of R25 843 for acting allowance. The acting allowance was paid to the Chief Financial Officer for the period 1 July 2022 to 31 July 2022 (1 month) in which he acted. Director: Community Services received a backpay in December 2022 for the period in which he acted.

2. Included in the allowances for the Chief Financial Officer's salary is an amount of R46 841 for acting allowance. The acting allowance was paid to the Deputy Chief Financial Officer for the period 1 July 2022 to 31 July 2022 (1 month) and from 1 May 2023 to 30 June 2023 (2 months) in which he acted.

3. Included in the allowances for the Director: Community Services' salary is an amount of R46 208 for acting allowance. The acting allowance was paid to Manager: Environmental Services for the period 1 July 2022 to 31 December 2022 (6 months) in which he acted.

4. Included in the allowances for the Director: Transportation Services' salary is an amount of R95 094 for acting allowance. The acting allowance was paid to Manager: Public Transport Regulations for the period 1 July 2022 to 30 June 2023 (12 months) in which he acted.

5. Included in the allowances for the Director: Water and Sanitation's salary is an amount of R269 506 for acting allowance. The acting allowance was paid to Assistant Manager: Water and Sanitation for the period 1 July 2022 to 30 June 2023 (12 months) in which he acted.

6. Included in the allowances for the Director: Corporate Service's salary is an amount of R16 904 for acting allowance. The acting allowance was paid to Deputy Chief Financial Officer for the period 1 April 2023 to 30 April 2023 (1 month); as well as Manager: Office of the Municipal Manager for the period 1 May 2023 to 30 June 2023 (2 months) in which they acted.

7. Included in the allowances for the Director: Strategic Planning, Monitoring and Evaluation's salary is an amount of R47 820 for acting allowance. The acting allowances were paid to Manager: Project Management and Manager: Performance Management for the periods 1 December 2022 to 30 April 2023 (5 months) and 1 May 2023 to 30 June 2023 (2 months), respectively, in which they acted.

8. Included in the allowances for the Director: Planning and Economic Development's salary is an amount of R46 930 for acting allowance. The acting allowance was paid to Manager: Planning and Economic Development for the period 7 August 2022 to 31 January 2023 (6 months) in which he acted.

#### 2022 -

Where other officials acted in the Executive Director positions and was remunerated accordingly, only the additional remuneration for acting in that position is disclosed. These acting positions are as follows:

1. Included in the allowances for the Municipal Manager salary is an amount of R217 885 for acting allowance. The acting allowance was paid to Director: Community Services for the period 20 September 2021 to 30 June 2022 (9 months) in which he acted.

2. Included in the allowances for the Director: Transportation Services' salary is an amount of R39 308 for acting allowance. The acting allowance was paid to Manager: Public Transport Regulations for the period 1 March 2022 to 30 June 2022 (4 months) in which he acted.

3. Included in the allowances for the Director: Water and Sanitation's salary is an amount of R81 952 for acting allowance. The acting allowance was paid to Assistant Manager: Water and Sanitation for the period 6 January 2022 to 30 June 2022 (6 months) in which he acted

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>36. Employee related cost (continued)</b>		
<b>36.2 Municipal staff costs</b>		
Basic salary	561 289 740	559 305 772
Service-related benefits	226 286 591	186 097 924
Allowances	65 103 803	68 080 063
Bargaining council	250 419	241 898
Medical	45 068 515	42 356 459
Pension	108 228 605	105 513 470
Post-retirement benefit: Medical	32 363 000	31 391 000
Post-retirement benefit: Pension	14 666 000	12 063 000
Unemployment insurance	4 631 819	4 796 207
<b>Total</b>	<b>1 057 888 492</b>	<b>1 009 845 793</b>
<b>37. Remuneration of councillors</b>		
Executive mayor	37.1 1 151 406	994 203
Chief whip	37.2 877 065	814 510
Speaker	37.3 931 900	860 276
Executive committee	37.4 6 903 830	5 682 943
Section 79 committee chairperson	37.5 1 847 098	1 768 097
All other councillors	37.6 29 672 321	29 229 460
<b>Total</b>	<b>41 383 620</b>	<b>39 349 489</b>
<b>37.1 Executive mayor</b>		
<b>Allowances and service related benefits</b>		
Basic salary	876 569	749 313
Cell phone allowance	40 800	38 216
In-kind benefits	7 500	3 372
Motor vehicle allowance	372	12 400
Medical aid benefits	94 680	83 507
Pension fund contributions	131 485	107 395
<b>Total</b>	<b>1 151 406</b>	<b>994 203</b>
<b>37.2 Chief whip</b>		
<b>Allowances and service related benefits</b>		
Basic salary	540 499	494 225
Cell phone allowance	40 800	40 800
In-kind benefits	7 500	3 600
Motor vehicle allowance	207 191	193 143
Pension fund contributions	81 075	71 673
Medial aid benefits	-	11 069
<b>Total</b>	<b>877 065</b>	<b>814 510</b>
<b>37.3 Speaker</b>		
<b>Allowances and service related benefits</b>		
Basic salary	576 261	536 102
Cell phone allowance	40 800	40 800
In-kind benefits	7 500	3 600
Motor vehicle allowance	219 798	114 712
Travelling allowance	1 102	87 250
<b>Social contributions</b>		
Pension fund contributions	86 439	77 812

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022	
<b>37. Remuneration of councillors (continued)</b>			
<b>Total</b>	<b>931 900</b>	<b>860 276</b>	
<b>37.4 Executive committee</b>			
<b>Allowances and service related benefits</b>			
Basic salary	4 315 646	3 632 464	
Cell phone allowance	408 000	383 901	
In-kind benefits	67 329	33 874	
Motor vehicle allowance	1 319 619	964 822	
<b>Social contributions</b>			
Medical aid benefits	145 889	137 988	
Pension fund contributions	647 347	529 894	
<b>Total</b>	<b>6 903 830</b>	<b>5 682 943</b>	
<b>37.5 Section 79 committee chairperson</b>			
<b>Allowances and service related benefits</b>			
Basic salary	1 382 502	1 269 331	
Cell phone allowance	122 400	121 992	
In-kind benefits	21 083	10 764	
Motor vehicle allowance	113 738	174 230	
	<b>1 639 723</b>	<b>1 576 317</b>	
<b>Social contributions</b>			
Medical aid benefits	-	6 016	
Pension fund contributions	207 375	185 764	
	<b>207 375</b>	<b>191 780</b>	
<b>Total</b>	<b>1 847 098</b>	<b>1 768 097</b>	
<b>37.6 All other councillors</b>			
<b>Allowances and service related benefits</b>			
Basic salary	18 889 367	19 094 482	
Cell phone allowance	3 168 691	3 201 440	
In-kind benefits	556 007	268 080	
Motor vehicle allowance	4 417 159	4 016 874	
<b>Social contributions</b>			
Medical aid benefits	80 710	154 992	
Pension fund contributions	2 560 387	2 493 592	
<b>Total</b>	<b>29 672 321</b>	<b>29 229 460</b>	
<b>38. Bad debts</b>			
Contributions to provisions for consumer debtors and other debtors	26 735 096	86 883 824	
Contributions to provisions for traffic fines	30 940 627	57 933 331	
Bad debts written off	190 538 624	54 725 389	
Other write offs	75 800 894	-	
	<b>324 015 241</b>	<b>199 542 544</b>	
<b>39. Depreciation and amortisation</b>			
<b>Amortisation</b>			
Intangible assets	13.1	3 579 783	5 350 221
<b>Depreciation</b>			
Property, plant and equipment	10.1	719 586 322	756 826 184



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand		2023	2022		
<b>39. Depreciation and amortisation (continued)</b>					
<b>Total</b>		<b>723 166 105</b>	<b>762 176 405</b>		
<b>40. Interest, dividends and rent on land</b>					
Interest	40.1	57 837 288	59 736 932		
<b>40.1 Interest cost</b>					
Financial liabilities					
• Government loans		42 336 217	44 848 077		
Finance leases		3 737 075	4 572 777		
Interest costs non-current provisions	22	11 763 996	9 871 285		
Overdue accounts	18.6	-	444 793		
<b>Total</b>		<b>57 837 288</b>	<b>59 736 932</b>		
<b>41. Bulk purchases</b>					
Electricity: Eskom		856 611 259	878 180 154		
<b>41.1 Electricity losses</b>					
		2023	2022		
		KHW	Amount	KHW	Amount
Units purchased		590 229 916	856 611 259	668 657 351	878 180 154
Units sold		(528 705 467)	(767 319 723)	(589 772 140)	(774 576 377)
<b>Total loss</b>		<b>61 524 449</b>	<b>89 291 536</b>	<b>78 885 211</b>	<b>103 603 777</b>
<b>Percentage loss:</b>					
Distribution loss		10.42 %	10.42 %	11.80 %	11.80 %
<b>41.2 Water losses</b>					
Real losses: Leakage on service connections up to the point of customer meter			87 344 085		86 994 953
		2023	2022		
		KL	Amount	KL	Amount
Units purchased		29 795 664	241 391 091	38 428 075	258 824 195
Units sold		(18 998 294)	(153 947 963)	(25 501 492)	(171 829 242)
<b>Total loss</b>		<b>10 797 370</b>	<b>87 443 128</b>	<b>12 926 583</b>	<b>86 994 953</b>
<b>Percentage loss:</b>					
Distribution losses		36.00 %	36.00 %	34.00 %	34.00 %
<b>42. Inventory consumed</b>					
Consumables			6 291 449		6 159 584
Materials and supplies			65 792 476		59 535 981
Water			153 772 783		188 356 300
<b>Total</b>			<b>225 856 708</b>		<b>254 051 865</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand		2023	2022
<b>43. Contracted services</b>			
Consultants and professional services	43.1	284 731 685	389 761 898
Contractors	43.2	244 184 460	269 066 119
Outsourced services	43.3	311 399 196	345 484 665
<b>Total</b>		<b>840 315 341</b>	<b>1 004 312 682</b>
<b>43.1 Consultants and professional services</b>			
<b>Business advisory services</b>			
Accounting and auditing		20 827 801	20 624 786
Audit committee		1 040 705	810 142
Business and financial management		39 510 865	50 334 233
Commissions and committees		279 832	208 562
Communications		8 282 773	6 885 069
Project management		16 759 187	39 960 119
Quality control		2 412 844	2 255 109
Research and advisory		3 970 167	3 911 332
<b>Total business advisory services</b>		<b>93 084 174</b>	<b>124 989 352</b>
<b>Laboratory services</b>			
Water		45 751 469	-
<b>Legal services</b>			
Legal advice and litigation		25 110 408	28 283 390
<b>Engineering services</b>			
Civil engineering		119 296 675	236 202 126
<b>Infrastructure and planning services</b>			
Town planner infrastructure and planning		1 488 959	287 030
<b>Total consultants and professional services</b>		<b>284 731 685</b>	<b>389 761 898</b>
<b>43.2 Contractors</b>			
<b>General services</b>			
Electrical		28 044 413	19 473 745
Employee wellness		227 340	438 903
Event promoters		188 994	475 516
Fire protection		3 450 830	3 269 900
First aid		1 034 338	1 026 674
Forestry		14 629	13 600
Gardening services		2 736 948	2 025 472
Grading of sport fields		318 842	1 502 266
Management of informal settlements		114 295	16 425
Safeguard and security		10 133 375	10 668 642
Sewerage services		40 662 095	16 444 190
Transportation		49 375 472	26 297 436
<b>Total general services</b>		<b>136 301 571</b>	<b>81 652 769</b>
<b>Maintenance services</b>			
Maintenance of buildings and facilities		33 910 004	53 639 216
Maintenance of equipment		39 788 292	43 404 965
Maintenance of other assets		34 184 593	90 369 169
<b>Total maintenance service</b>		<b>107 882 889</b>	<b>187 413 350</b>
<b>Total contractor</b>		<b>244 184 460</b>	<b>269 066 119</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>43. Contracted services (continued)</b>		
<b>43.3 Outsourced services</b>		
<b>Business and advisory services</b>		
Commissions and Committees	57 740 008	76 194 620
Communications	5 559 995	6 966 646
Human Resources	395 619	391 951
Occupational Health and Safety	-	37 500
Valuer	1 682 804	643 544
<b>Total business and advisory services</b>	<b>65 378 426</b>	<b>84 234 261</b>
<b>General services</b>		
Animal Care	1 464 248	1 365 321
Burial Services	273 779	5 187 154
Call Centre	-	4 741 896
Catering Services	3 496 735	1 683 933
Cleaning Services	1 111 507	3 422 828
Clearing and Grass Cutting Services	2 708 196	2 701 521
Hygiene Services	1 322 979	831 162
Medical Services [Medical Health Services & Support	124 545	-
Meter Management	7 216 467	21 356 770
Personnel and Labour	47 809 201	48 200 878
Refuse Removal	68 400 513	69 015 877
Translators, Scribes and Editors	11 200	70 754
Transport Services	45 887 944	36 503 567
<b>Total general services</b>	<b>179 827 314</b>	<b>195 081 661</b>
<b>Trading services</b>		
Connection/Dis-connection: Electricity	68	922 417
Security Services	66 193 388	65 246 326
<b>Total trading services</b>	<b>66 193 456</b>	<b>66 168 743</b>
<b>Total outsourced services</b>	<b>311 399 196</b>	<b>345 484 665</b>
<b>44. Government grants and subsidies - Expenditure</b>		
<b>Operational</b>		
Monetary allocations	44.1	9 671 404
		45 240 000
<b>44.1 Monetary allocations: Operational</b>		
Municipal Entities		9 191 404
Non-profit institutions		480 000
<b>Total</b>		<b>9 671 404</b>
		<b>45 240 000</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022	
<b>45. Operational cost</b>			
Advertising, Publicity and Marketing	26 409 470	10 272 490	
Bank Charges, Facility and Card Fees	5 870 081	4 547 772	
Bursaries (Employees)	2 518 454	698 798	
Commission	159 958	-	
Communication	17 743 856	19 754 462	
Contribution to Provisions	(8 177 040)	-	
Drivers Licences and Permits	525	56 112	
Entrance Fees	26 025	45 160	
External Audit Fees	16 190 028	15 140 226	
External Computer Service	24 580 271	8 180 152	
Hire Charges	8 209 438	8 800 397	
Indigent Relief	14 753 530	15 775 531	
Insurance Underwriting	28 941 519	24 024 486	
Learnerships and Internships	5 544 197	7 977 646	
Licences	-	5 325	
Management Fee	171 459	60 865	
Municipal Services	4 699 860	23 187 159	
Printing, Publications and Books	129 616	335 452	
Professional Bodies, Membership and Subscription	11 194 977	10 316 698	
Registration Fees	4 221 458	4 276 246	
Remuneration to Ward Committees	7 103 775	69 239	
Signage	-	2 200 901	
Skills Development Fund Levy	9 458 946	11 825 826	
System Access and Information Fees	716 900	987 652	
Toll Gate Fees	69 120	36 972	
Travel Agency and Visa's	2 989 251	2 752 250	
Travel and Subsistence	1 582 353	353 052	
Uniform and Protective Clothing	11 297 708	17 329 936	
Wet Fuel	61 939 578	50 548 984	
<b>Total</b>	<b>258 345 313</b>	<b>239 559 789</b>	
<b>46. Gain/(Loss) on assets</b>			
Gains/(losses) on assets	46.1	(583 009 739)	(68 287 563)
<b>46.1 Gains/(losses) on assets</b>			
Investment property		(5 899 998)	(63 314 879)
Property, plant and equipment		(575 010 422)	(4 972 684)
Living resources		(2 099 319)	-
<b>Total</b>		<b>(583 009 739)</b>	<b>(68 287 563)</b>
<b>Analysis of Gains/(losses) on property, plant and equipment</b>			
Loss on disposal		(7 537 657)	(4 972 684)
Revaluation loss		(567 472 765)	-
		<b>(575 010 422)</b>	<b>(4 972 684)</b>
<b>47. Fair value adjustment</b>			
Biological assets		57 875	5 844 163
Investment property		39 142 057	(92 838 613)
Living resources		6 148 752	1 489 293
Actuarial Assessments		69 485 677	68 834 102
		<b>114 834 361</b>	<b>(16 671 055)</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>48. Inventory (write down)</b>		
Inventory	(792 800)	(29 116 710)
Water losses	(87 344 085)	(86 994 953)
	<u>(88 136 885)</u>	<u>(116 111 663)</u>
<b>49. Impairment losses</b>		
Property, plant and equipment	10.1 <u>31 148 802</u>	<u>18 527 940</u>
<b>50. Auditors remuneration</b>		
External Audit Fees	<u>16 190 028</u>	<u>15 140 226</u>
<b>51. Net cash from/(used) operating activities</b>		
Deficit for the year	(326 848 516)	(312 757 307)
<b>Adjustments for:</b>		
Depreciation and amortisation	723 166 105	762 176 405
Bad debts written off	324 015 241	199 542 544
(Gains) / Losses on disposal of assets	583 009 739	68 287 563
Fair value adjustment	(45 348 684)	85 505 157
Impairment loss	31 148 802	18 527 940
Inventory losses	792 800	29 116 710
Water losses	87 344 085	86 994 953
<b>Movement in working capital</b>		
(Increase) / Decrease in receivables	(304 055 708)	(399 025 000)
(Increase) / Decrease in inventory	(59 479 374)	(64 472 278)
Increase / (Decrease) in Provisions	(27 590 984)	(23 058 468)
Increase / (Decrease) in VAT	(16 458 450)	36 115 713
Increase / (Decrease) in trade and other payables	(215 846 923)	(30 375 058)
Increase / (Decrease) in unspent conditional grants and receipts trade and other payable non-exchange transactions	(130 036 255)	75 270 628
<b>Net cash flows from operating activities</b>	<u><b>623 811 878</b></u>	<u><b>531 849 502</b></u>
<b>52. Financial instruments</b>		
<b>52.1 Fair value of financial instruments</b>		

The management of the municipality is of the opinion that the carrying value of Financial Assets and Financial Liabilities recorded at amortised cost in the audited annual financial statements approximate their fair values. In accordance with GRAP 104 the Fair Values of Financial Assets and Financial Liabilities, together with the carrying amounts shown in the Statement of financial position, are as follow:

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand		2023		2022	
<b>52. Financial instruments (continued)</b>					
		2023		2022	
		Carrying amount	Fair value	Carrying amount	Fair value
<b>Financial assets</b>					
<b>Amortised cost</b>					
Trade and other receivables from exchange transactions	4	723 147 192	723 147 192	796 823 669	796 823 669
Other receivables from exchange transactions	15	33 748 015	33 748 015	31 136 848	31 136 848
Receivables from non exchange transactions		346 399 818	346 399 818	295 294 041	295 294 041
Cash and cash equivalents	3	184 371 391	184 371 391	232 670 007	232 670 007
VAT receivable		2 091 660	2 091 660	-	-
Investment in associate		1 000	1 000	1 000	1 000
		<b>1 289 759 076</b>	<b>1 289 759 076</b>	<b>1 355 925 565</b>	<b>1 355 925 565</b>
<b>Financial liabilities</b>					
<b>Amortised cost</b>					
<b>Unsecured bank facilities:</b>					
Financial liabilities		352 265 231	352 265 231	387 346 324	387 346 324
<b>Trade and other payables:</b>					
Consumer deposits	17	66 794 150	66 794 150	67 346 075	67 346 075
Trade and other payables from exchange transactions	18	613 278 176	613 278 176	829 062 586	829 062 586
Current portion of financial liabilities		46 141 112	46 141 112	30 802 875	30 802 875
VAT payable		-	-	14 366 790	14 366 790
		<b>726 213 438</b>	<b>726 213 438</b>	<b>941 578 326</b>	<b>941 578 326</b>
<b>Total financial liabilities</b>		<b>1 078 478 669</b>	<b>1 078 478 669</b>	<b>1 328 924 650</b>	<b>1 328 924 650</b>
<b>Total financial instruments</b>		<b>211 280 407</b>	<b>211 280 407</b>	<b>27 000 915</b>	<b>27 000 915</b>

The fair values of financial assets and financial liabilities are determined as follows:

Fair values for financial assets are based on quoted market prices in active markets for an identical instrument.

For financial liabilities the contractual undiscounted cash flow is used. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

### 52.2 Liquidity risk

Ultimate responsibility for liquidity risk management rests with the Council. The municipality manages liquidity risk by effectively managing its working capital, capital expenditure, external borrowings and cash flows.

#### 30 June 2023

	Within 1 year	2 to 5 years	5 years +	Total
<b>Maturity analysis</b>				
Borrowings - capital repayments	25 088 399	174 036 420	173 652 083	372 776 902
Borrowings - interest	39 835 654	150 583 843	38 145 738	228 565 235
Trade and other payables	613 278 178	-	-	613 278 178
Finance lease - capital repayments - vehicles	12 906 261	-	-	12 906 261
Finance lease - capital repayments - cellphones	4 626 243	4 576 736	-	9 202 979
Finance lease - capital repayments - photocopiers	3 520 208	-	-	3 520 208
Finance lease - interest - vehicles	210 486	-	-	210 486
Finance lease - interest - cellphones	1 149 076	379 798	-	1 528 874
Finance lease - interest - photocopiers	210 656	-	-	210 656
		<b>700 825 161</b>	<b>329 576 797</b>	<b>211 797 821</b>
		<b>1 242 199 779</b>		<b>1 242 199 779</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand 2023 2022

### 52. Financial instruments (continued)

30 June 2022

Maturity analysis	Within 1 year	2 to 5 years	5 years +	Total
Borrowings - capital repayments	22 587 835	156 627 917	216 148 985	395 364 737
Borrowings - interest	42 336 217	179 382 555	60 572 888	282 291 660
Trade and other payables	829 062 586	-	-	829 062 586
Finance lease - capital repayments - vehicles	3 491 164	12 906 261	-	16 397 425
Finance lease - capital repayments - cellphones	3 135 425	213 122	-	3 348 547
Finance lease - capital repayments - photocopiers	1 588 450	1 450 049	-	3 038 499
Finance lease - interest - vehicles	2 906 888	210 485	-	3 117 373
Finance lease - interest - cellphones	157 804	9 638	-	167 442
Finance lease - interest - photocopiers	232 355	67 288	-	299 643
	<b>905 498 724</b>	<b>350 867 315</b>	<b>276 721 873</b>	<b>1 533 087 912</b>

### 52.3 Credit risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the municipality.

Potential concentrations of credit risk consist mainly of fixed deposit investments, long-term debtors, consumer debtors, other debtors, short-term investment deposits and bank and cash balances.

The municipality manages credit risk in its borrowing and investing activities by only dealing with well-established financial institutions of high credit standing, and by spreading its exposure over a range of such institutions in accordance with its approved investment policies. Credit risk relating to consumer debtors is managed in accordance with the municipality's credit control and debt collection policy. The municipality's credit exposure is spread over a large number and wide variety of consumers and is not concentrated in any particular sector or geographical area. Adequate provision has been made for anticipated bad and doubtful debts. Additional information relating to the analysis of consumer debtors is given in the accounting policies and Note 6 to the audited annual financial statements.

The municipality does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics. The municipality defines counterparties as having similar characteristics if they are related entities. The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings.

The carrying amount of financial assets recorded in the audited annual financial statements, which is net of impairment losses, represents the municipality's maximum exposure to credit risk without taking account of the value of any collateral obtained.

The maximum credit and interest risk exposure in respect of the relevant financial instruments is as follows:

Trade and other receivables from exchange transactions	4	723 147 192	796 823 669
Bank and cash balances	3	184 371 391	232 670 007
<b>Maximum credit and interest risk exposure</b>		<b>907 518 583</b>	<b>1 029 493 676</b>

### 53. Contingent assets and liabilities

Contingent liabilities	284 086 122	259 596 972
Contingent assets	14 095 040	3 453 000

The above legal matters are ongoing and have not yet been finalised.

Refer to Annexure G for the contingent assets & liabilities register.

The above legal matters are ongoing and have not yet been finalised.

Refer to Annexure G for the contingent assets & liabilities register.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>54. Unauthorised, irregular, fruitless and wasteful expenditure</b>		
<b>54.1 Unauthorised expenditure</b>		
Opening balance as previously reported	1 669 131 938	1 152 224 580
Add: Unauthorised expenditure – current	1 040 556 577	539 098 503
Less: Amounts written off – current	(1 077 762 333)	-
Less: Amounts written-off – prior period	-	(22 191 145)
<b>Closing balance</b>	<b>1 631 926 182</b>	<b>1 669 131 938</b>
<b>The over expenditure incurred by the municipal departments during the year is attributable to the following categories</b>		
Non-cash items	1 040 556 577	539 098 503
Cash items	-	-
	<b>1 040 556 577</b>	<b>539 098 503</b>
<b>Analysed as follows: non cash items</b>		
Depreciation and amortisation	278 769 927	511 893 476
Finance charges (i.e interest charge on the provision for rehabilitation of landfill sites)	-	6 500 022
Inventories (consumed/issued/write-down)	88 136 885	16 485 205
Losses on disposal of assets	583 009 739	-
Impairment losses	31 148 802	-
Bad debts written off	59 491 224	4 219 800
	<b>1 040 556 577</b>	<b>539 098 503</b>
The write off of R22 191 145 related to the unauthorised expenditure incurred in the financial year 2016/17. The write off was approved in Council Resolution number CR/65/10/21.		
<b>54.2 Irregular expenditure</b>		
Opening balance as previously reported	241 163 582	628 537 926
Correction of prior period error	-	(18 130 028)
<b>Opening balance as restated</b>	<b>241 163 582</b>	<b>610 407 898</b>
Add: Irregular expenditure - current	255 808 363	89 762 828
Add: Irregular expenditure – prior period	-	10 489 146
Less: Amounts written-off	(228 594 269)	-
Less: Amounts written-off – prior period	-	(469 496 290)
<b>Closing balance</b>	<b>268 377 676</b>	<b>241 163 582</b>
Included in the opening balance is an amount of R7 101 865 from the former Aganang municipality.		
<b>54.3 Fruitless and wasteful expenditure</b>		
Opening balance as previously reported	17 125 046	1 199 127
Add: Fruitless and wasteful expenditure – current	-	17 125 046
Less: Amount recoverable – current	-	(1 199 127)
<b>Closing balance</b>	<b>17 125 046</b>	<b>17 125 046</b>
Incident	-	444 793
Interest due to late payments	-	16 680 253
Prepayments for goods delivered	-	-
<b>Total</b>	<b>-</b>	<b>17 125 046</b>



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>55. Commitments</b>		
<b>Authorised capital expenditure</b>		
<b>Already contracted for but not provided for</b>		
• Infrastructure	998 789 789	705 502 041
• Other	-	25 111 380
	<b><u>998 789 789</u></b>	<b><u>730 613 421</u></b>
<b>Total capital commitments</b>		
Already contracted for but not provided for	<u>998 789 789</u>	<u>730 613 421</u>
<b>Total commitments</b>		
<b>Total commitments</b>		
Authorised capital expenditure	<u>998 789 789</u>	<u>730 613 421</u>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand 2023 2022

### 56. Related party disclosures

#### 56.1 Nature of related party relationships

Councillor remuneration	Refer to General Information page
Related party	Nature of relationship
Director	Refer to accounting officer's note
Ultimate company	Polokwane Local Municipality
Company	Polokwane Local Municipality
Controlled entities	Polokwane Housing Association. Refer to related party transactions note below and note
Members of key management	Refer to Note 36 for remuneration
Councillor remuneration	Refer to General Information page
Councillor remuneration	Refer to General Information page

#### 56.2 Related party transactions

Compensation to councillors - Payments to councillors are for allowances as gazetted. Refer to Note 37 for remuneration of councillors.

Controlled entities - the municipality has exempted PHA from paying municipal rates and taxes.

#### Polokwane Housing Association

Grants		9 191 404	44 800 000
Accounting fees paid on behalf of PHA - Munsoft (Pty) Ltd		1 096 046	996 405
Accounting fees paid on behalf of PHA - MMB Consulting	Source	1 071 823	1 225 381
		<u>11 359 273</u>	<u>47 021 786</u>

#### 56.3 Related party balances

##### Controlled entities

No guarantees were given or received.

There were no loans given or taken from Polokwane Housing Association during the year.

#### 56.4 Remuneration of management

##### Management class: Councillors/mayoral committee members

Refer to Note 37 - Remuneration of councillors"

##### Management class: Executive management

Refer to note 36 "Employee related costs"

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>57. Deviations from SCM regulations - SCM Regulation 36</b>		
In terms of section 36 of the municipality SCM regulations, any deviations from SCM policy needs to be approved by the director and noted by Council. The awards listed below have been approved by the director and noted by Council.		
Nature and value of deviations from SCM Regulations granted during the reporting year:		
Information technology upgrades	1 056 788	11 206 628
Other	421 165	-
Deviations less than R200,000	1 190 428	1 435 759
<b>Total amount approved by the director and noted by council</b>	<b>2 668 381</b>	<b>12 642 387</b>

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

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

Prescribed procurement processes were not followed but was approved by the Municipal Manager in terms of delegated powers and in accordance with Supply Chain Management Regulations and Policy. Valid reasons for deviations were recorded in all instances

### 58. Budget information

#### Explanation of variances between approved and final budget amounts

The reason for the variances between the approved and final budgets are mainly due to reallocations made within the approved budget parameters allowed for by the Virement Policy of Polokwane Local Municipality as approved by Council.

Explanation of variances greater than 10%: Final Budget and Actual Amounts.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
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### 58. Budget information (continued)

Statement of Financial Performance

BD1: The variance is below 10%. No explanation is necessary.

BD2: The underperformance on licence and permits is due to no performance on instructor's certificate.

BD3: There was an increase in interest rate which resulted in an increase in debt book.

BD4: The underperformance is due to customers using different platforms for application of licences..

BD5: The interest earned increased as the municipality has commenced investing during the current year and also due to the increase in interest rate.

BD6: The underperformance of interest earned from outstanding debtors is attributable to the fact that most customers were given incentive on the balance outstanding as well as write down of debts. Interest was reversed for Mankweng estimations as actual flat rate was levied on the system.

BD7: Overperformance of operational revenue is due to the incidental cash surpluses from prior year that was recognised as operational revenue in the current year as approved by Council.

BD8: Rental from fixed assets anticipated revenue increase is attributable to the revenue from straight lining as required by GRAP and due to the increase in customers that are using the municipal facilities for events.

BD9: The increase is due to bus fare services, occupational certificates and academic services.

BD10: The reason for the decrease is attributable to consumers using alternative energy; as well as the impact of loadshedding.

BD11: The normal increase are attributable to the work in progress as zoning on properties are being verified and adjustments made to accounts. The completeness exercise is continuing to ensure alignment between zoning and billing.

BD12: Water is underperforming because of faulty meters and flat batteries. Most of the accounts without readings were billed a fixed charge as approved by Council.

BD13: The increase in irrecoverable debts is attributable to the fact that most customers were given incentives on the balance outstanding and some debts were written down.

BD14: Actual depreciation journal is captured monthly. This highly indicates insufficient budget for depreciation. In terms of National Treasury Circular the municipality cannot budget for a deficit.

BD15: The underperformance of inventory consumed is due to decrease in sale of water and customers using alternative water supply, eg Boreholes.

BD16: This expenditure is dependant on needs and requirements of departments.

BD17: Performance is dependant on the municipal entity's need of expenditure. The municipal entity (Polokwane Housing Association) submits grant requests as and when funds are needed to meet their planned expenditure.

### Statement of Financial Position

BD18: Decrease attributable to timely performance on grants transferred.

BD19: Increase attributable to non-payment and increased interest rates on non-receivables.

BD20: Attributable to water reticulation and electrical supplies. Cable theft and water pipe bursts were not anticipated.

BD21: Increase due to revaluation on assets.

BD22: Intangible assets were provided for on Property, plant and equipment.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand

2023

2022

### 58. Budget information (continued)

BD23: Increase due to revaluation on assets.

BD24: A higher revaluation on assets was anticipated.

BD25: Under budget on finance lease.

BD26: The underbudget was due to no increase in the Provision for Fleet Africa.

BD27: Underprovision for employee benefits.

### Cash flow Statement

CF1: Immaterial

CF2: The reason for the decrease is attributable to consumers using alternative energy and loadshedding.

CF3: The interest earned increased as the municipality has started investing in the current year and due to increase in interest rate.

CF4: The underperformance on bulk purchases electricity is due to loadshedding.

CF5: Underprovision on finance charges.

CF6: This relates to the proceeds from the game auction.

CF7: Underperformance due to the reclassification of RAL roads from capital to operational expenditure.

CF8: Underprovision on finance leases.

CF9: Decrease attributable to timely performance on grants transferred.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
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### 59. Principal-agent arrangements

#### 59.1 Municipality acting as the principal

##### **SANRAL**

The municipality is a party to a principal-agent arrangement with SANRAL, wherein the municipality acts as the principal.

SANRAL is entitled to 5% of the service fee.

No resources held at SANRAL are owned by the municipality. All resources that are utilised by SANRAL in support of the function is owned by SANRAL. Consequently, there will be no cost implications in the event of termination of the arrangement.

Fees paid as commission to the agent	159 958	-
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##### **Cigicell Pty Ltd**

The municipality is a party to a principal-agent arrangement with Cigicell Pty Ltd, wherein the municipality acts as the principal.

Polokwane Municipality appointed Cigicell for vending of prepaid electricity and water to its Customers (third party) on its behalf.

Cigicell Pty Ltd is entitled to 2.25% of the face value of the revenue collected via the vending system.

No resources held at Cigicell Pty Ltd are owned by the municipality. All resources that are utilised by Cigicell Pty Ltd in support of the function is owned by Cigicell Pty Ltd. Consequently, there will be no cost implications in the event of termination of the arrangement.

Fees paid as commission to the agent	23 046 898	19 159 353
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##### **Park Point Pty Ltd**

The municipality is a party to a principal-agent arrangement with Park Point Pty Ltd, wherein the municipality acts as the principal.

Polokwane Municipality appointed Park Point for collection of parking fees from its customers (third party) on its behalf.

Park Point Pty Ltd is entitled to 75% of the face value of the revenue collected on street parking.

No resources held at Park Point Pty Ltd are owned by the municipality. All resources that are utilised by Park Point Pty Ltd in support of the function is owned by Park Point Pty Ltd. Consequently, there will be no cost implications in the event of termination of the arrangement.

##### **Reconciliation of amounts payable to Park Point Pty Ltd**

Fees paid as commission to the agent	-	-
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# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>59. Principal-agent arrangements (continued)</b>		
<b>59.2 Municipality acting as the agent</b>		
Revenue recognised as compensation for the transactions carried out on behalf of the principal	23 554 336	22 640 956
Revenue received or to be received on behalf of the principal	118 811 213	104 154 444
<b>Payables held on behalf of the principal</b>		
Opening balance	-	126 795 400
Expenses incurred	118 811 213	104 154 444
Cash paid	(118 811 213)	(230 949 844)
<b>Closing balance</b>	-	-

There are no expenditure paid or incurred on behalf of the principal.

There are no receivables held on behalf of the principal.

The municipality is a party to two principal-agent arrangements:

- Department of Transport
- South African National Roads Agency

### 1. Department of Transport

The municipality is the agent to the provincial Department of Transport.

The provincial government, through the respective provincial department of transport, is mandated to collect motor vehicle licenses on an annual basis. The provincial department of transport determines the fee that is payable annually by motor vehicle owners, which varies depending on the type of motor vehicle owned.

To make the payment of the motor vehicle licenses easier, the provincial departments entered into a contractual arrangement with the Polokwane municipality to undertake this activity on their behalf. In terms of the arrangement:

- The provincial department of transport issues the motor vehicle licence renewal form to the respective owners of the motor vehicles, indicating the amount due for the year
- The municipality provide facilities for owners of motor vehicles to pay their licences.
- The provincial department provides the municipality with access to its IT systems so that they can capture the amounts received and issue the motor vehicle licenses on their behalf. The system automatically generates the motor vehicle license upon capturing the payment of the fees due.
- The municipality collect the fees due from motor vehicles owners and simultaneously issue the new licenses on behalf of the provincial government.
- The municipalities are required to pay over any revenue (cash) collected to the provincial government in respect of motor vehicle licenses.
- The municipalities are entitled to retain 20% and 3% of the cash collected for undertaking this activity for the provincial Department of Transport and AARTO respectively.

No significant risks exist other than risks associated with cash management. The application controls designed within the IT system are adequate to correctly account for such revenues.

### 2. South African National Roads Agency Ltd

The municipality is entitled to a commission of 4% based on the proceeds collected by SANRAL.

### 60. Events after the reporting date

Management is not aware of any events after the balance sheet date that are indicative of conditions that existed at 30 June 2023.

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023	2022
<b>61. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to SALGA</b>		
Current year subscription / fee	10 924 197	10 293 063
Amount paid - current year	(10 924 197)	(10 293 063)
	<u>-</u>	<u>-</u>
<b>Audit fees</b>		
Opening balance	1 469 515	-
Current year subscription / fee	16 190 028	15 140 226
Amount paid - current year	(17 492 655)	(13 670 711)
	<u>166 888</u>	<u>1 469 515</u>
<b>PAYE and UIF</b>		
Current year subscription / fee	180 473 195	170 131 210
Amount paid - current year	(180 473 195)	(170 131 210)
	<u>-</u>	<u>-</u>
<b>Pension and Medical Aid Deductions</b>		
Current year subscription / fee	240 544 317	230 362 542
Amount paid - current year	(240 544 317)	(230 362 542)
	<u>-</u>	<u>-</u>

### VAT

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

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

VAT on accrual basis reflects a net VAT receivable amount of R2 091 660 (2022: 14 366 790 payable)



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand 2023 2022

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

#### Councillors' arrear consumer accounts

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

30 June 2023	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
TPK Murwa	2 620	6 737	9 357
MF Ramaphakela	3 319	1 545	4 864
	<b>5 939</b>	<b>8 282</b>	<b>14 221</b>

30 June 2022	Outstanding more than 90 days R	Total R
MA Mhlapamaswi	984	984
TPK Murwa	173 819	173 819
TA Pheedi	2 036	2 036
MD Makhafola	2 266	2 266
CM Radise	1 162	1 162
ML Segole	756	756
TP Mothiba	5 356	5 356
	<b>186 379</b>	<b>186 379</b>

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

30 June 2023	Highest outstanding amount	Aging (in days)
TPK Murwa	9 357	120
ML Segole	4 864	120
	<b>14 221</b>	-

30 June 2022	Highest outstanding amount	Aging (in days)
MA Mhlapamaswi	984	90
TPK Murwa	173 819	90
TA Pheedi	2 036	90
MD Makhafola	2 266	90
CM Radise	1 162	90
ML Segole	756	90
TP Mothiba	5 356	90
	<b>186 379</b>	-

### 62. Segment information

#### General information

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand 2023 2022

### 62. Segment information (continued)

#### Identification of segments

The municipality is organised and reports to management on the basis of three major functional areas: Community and public safety, Economic and environmental services and Trading services. The segments were organised around the type of service delivered and the target market. Management uses these same segments for determining strategic objectives. Segments were aggregated for reporting purposes.

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

The municipality's operations are in the Limpopo Province.

Separate financial and other relevant information on geographical areas in which the municipality operates is not available. The cost to develop the necessary information would be excessive.

#### 2023

	Community and public safety	Economic and environmental services	Trading services	Other	Unallocated	Total
<b>Segment revenue</b>						
External revenue from non-exchange transactions	7 146	32 392 200	9 041 812	-	2 631 415 619	2 672 856 777
External revenue from exchange transactions	26 728 649	65 424 031	1 742 845 717	61 612	123 099 229	1 958 159 238
Interests on investments	-	-	-	-	38 814 996	38 814 996
Fair value adjustments	-	38 744 119	19 951 164	-	56 139 078	114 834 361
<b>Total</b>	<b>26 735 795</b>	<b>136 560 350</b>	<b>1 771 838 693</b>	<b>61 612</b>	<b>2 849 468 922</b>	<b>4 784 665 372</b>
<b>Segment expenses</b>						
Total segment expenses	269 898 216	468 631 871	1 678 688 093	-	1 210 996 887	3 628 215 067
Depreciation and amortisation	137 921 496	314 955 112	229 007 860	-	41 281 638	723 166 106
Loss on disposal of assets	-	570 000 884	-	-	13 008 855	583 009 739
Impairment losses	-	-	-	-	31 148 803	31 148 803
Interest expense	-	-	-	-	57 837 288	57 837 288
Inventory write-down	-	-	-	-	792 800	792 800
Water losses	-	-	-	-	87 344 085	87 344 085
<b>Total</b>	<b>407 819 712</b>	<b>1 353 587 867</b>	<b>1 907 695 953</b>	<b>-</b>	<b>1 442 410 356</b>	<b>5 111 513 888</b>
<b>Surplus for the year</b>	<b>(381 083 917)</b>	<b>(1 217 027 517)</b>	<b>(135 857 260)</b>	<b>61 612</b>	<b>1 407 058 566</b>	<b>(326 848 516)</b>
<b>Other information</b>						
Segment assets	2 943 127 388	4 548 672 494	4 405 296 060	15 172	5 376 916 566	17 274 027 680
Segment liabilities	(9 458 122)	(11 824 521)	(78 827 945)	-	(1 663 198 219)	(1 763 308 807)
Total capital expenditure	210 246 926	19 349 280	376 330 486	-	46 907 016	652 833 708

#### 2022

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

Figures in Rand	2023			2022	
<b>62. Segment information (continued)</b>					
	Community and public safety	Economic and environmental services	Trading services	Unallocated	Total
<b>Segment revenue</b>					
External revenue from non-exchange transactions	1 125	17 979 477	12 022 247	2 401 250 307	2 431 253 156
External revenue from exchange transactions	28 572 698	55 114 520	1 815 198 323	5 505 341	1 904 390 882
Interests on investments	-	-	-	9 640 821	9 640 821
Interest earned from receivables	-	-	-	70 456 273	70 456 273
<b>Total</b>	<b>28 573 823</b>	<b>73 093 997</b>	<b>1 827 220 570</b>	<b>2 486 852 742</b>	<b>4 415 741 132</b>
<b>Segment expenses</b>					
Total segment expenses	245 738 960	594 037 150	1 706 859 007	1 140 351 764	3 686 986 881
Depreciation and amortisation	154 974 548	560 293 204	130	46 908 523	762 176 405
Loss on disposal of assets	-	61 194 822	-	7 092 741	68 287 563
Impairment losses	-	-	18 527 940	-	18 527 940
Fair value adjustments	-	92 838 613	(23 967 557)	(52 200 000)	16 671 056
Interest expense	-	-	59 736 932	-	59 736 932
Inventory write-down	-	-	-	29 116 709	29 116 709
Water losses	-	-	86 994 953	-	86 994 953
<b>Total</b>	<b>400 713 508</b>	<b>1 308 363 789</b>	<b>1 848 151 405</b>	<b>1 171 269 737</b>	<b>4 728 498 439</b>
<b>Surplus for the year</b>	<b>(372 139 685)</b>	<b>(1 235 269 792)</b>	<b>(20 930 835)</b>	<b>1 315 583 005</b>	<b>(312 757 307)</b>
<b>Other information</b>					
Segment assets	2 983 014 225	3 020 576 926	4 612 050 593	4 621 773 534	15 237 415 278
Segment liabilities	(6 476 700)	(35 926 740)	(237 415 757)	(1 879 101 227)	(2 158 920 424)
Total capital expenditure	366 360 289	2 510 342	200 653 080	-	569 523 711

### 63. GRAP 3 adjustments

The following restatements and adjustments occurred which are set out below:

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

### 63. GRAP 3 adjustments (continued)

#### 63.1 Adjustments of Statement of financial position items

2023

	Note	As previously reported	Correction of error	Re-classification	Restated
<b>Assets</b>					
<b>Current assets</b>					
Cash and cash equivalents	3	232 670 007	-	-	232 670 007
Receivables from exchange transactions	4	779 871 516	16 952 153	-	796 823 669
Receivables from non-exchange transactions	6	313 617 270	(18 323 229)	-	295 294 041
Other receivables from exchange transactions	5	62 529 284	(31 392 436)	-	31 136 848
Inventories	7	124 039 073	(1 386 240)	-	122 652 833
VAT Input Accrual		-	-	108 169 344	108 169 344
VAT receivable		-	-	14 896 268	14 896 268
		<b>1 512 727 150</b>	<b>(34 149 752)</b>	<b>123 065 612</b>	<b>1 601 643 010</b>
<b>Non-current assets</b>					
Investment property	9	973 542 543	(12 255 250)	-	961 287 293
Property, plant and equipment	10	12 800 862 402	(207 609 914)	-	12 593 252 488
Intangible assets	13	190 141 144	(151 562 233)	-	38 578 911
Biological assets	11	14 872 363	-	-	14 872 363
Living resources	16	5 939 645	(27 000)	-	5 912 645
Heritage assets	12	21 867 568	-	-	21 867 568
Investment in subsidiary	14	1 000	-	-	1 000
Long-term receivables	15	144 352	(144 352)	-	-
		<b>14 007 371 017</b>	<b>(371 598 749)</b>	-	<b>13 635 772 268</b>
<b>Total assets</b>		<b>15 520 098 167</b>	<b>(405 748 501)</b>		<b>15 237 415 278</b>
<b>Net assets and liabilities</b>					
<b>Current liabilities</b>					
Consumer deposits	17	67 555 872	(209 797)	-	67 346 075
Trade and other payables	18	827 391 377	1 671 209	-	829 062 586
Payables from non-exchange transactions	19	155 808 221	-	-	155 808 221
Borrowings	20	22 587 835	-	-	22 587 835
Lease liabilities	21	8 256 113	(41 073)	-	8 215 040
Employee benefits	23	11 902 119	-	-	11 902 119
Provisions	22	10 504 499	-	-	10 504 499
VAT payable		14 281 871	84 919	(14 366 790)	-
VAT Output Accrual		-	-	137 432 402	137 432 402
		<b>1 118 287 907</b>	<b>1 505 258</b>	<b>123 065 612</b>	<b>1 242 858 777</b>
<b>Non-current liabilities</b>					
Borrowings	20	372 776 892	-	-	372 776 892
Lease liabilities	21	14 721 270	(151 838)	-	14 569 432
Employee benefits	23	405 586 008	-	-	405 586 008
Provisions	22	123 129 315	-	-	123 129 315
		<b>916 213 485</b>	<b>(151 838)</b>	-	<b>916 061 647</b>
<b>Total net assets</b>					
Reserves	24	7 659 112 138	(175 831 042)	-	7 483 281 096
Accumulated surplus		5 826 484 637	(231 270 890)	-	5 595 213 747
		<b>13 485 596 775</b>	<b>(407 101 932)</b>		<b>13 078 494 843</b>
<b>Total net assets and liabilities</b>		<b>15 520 098 167</b>	<b>(405 748 512)</b>		<b>15 114 349 655</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

### 63. GRAP 3 adjustments (continued)

#### 63.2 Adjustments of Statement of financial performance items

2023

	Note	As previously reported	Correction of error	Re-classification	Restated
<b>Revenue</b>					
<b>Non-exchange revenue</b>					
Property rates	25	544 917 825	(16 869 237)	-	528 048 588
Transfers and subsidies	26	1 871 344 458	-	-	1 871 344 458
Fines, penalties and forfeits	27	31 864 937	-	-	31 864 937
Interest on receivables	28	28 235 969	(4 827)	-	28 231 142
		<b>2 476 363 189</b>	<b>(16 874 064)</b>		<b>- 2 459 489 125</b>
<b>Exchange revenue</b>					
Services charges - Electricity	29	1 214 406 449	3 442 410	-	1 217 848 859
Services charges - Water	29	294 127 397	(5 730 358)	-	288 397 039
Services charges - Waste water management	29	166 196 547	(3 049 718)	-	163 146 829
Services charges - Waste management	29	147 037 830	(1 232 234)	-	145 805 596
Rental	30	28 617 938	-	-	28 617 938
Interest on investments	31	9 640 821	-	-	9 640 821
Interest on receivables	28	54 011 015	(11 790 711)	-	42 220 304
Licences and permits		13 494 592	-	-	13 494 592
Agency fees	32	22 640 956	(775 732)	-	21 865 224
Operational revenue	33	3 116 628	847 123	-	3 963 751
Sale of goods and rendering of services	34	21 692 246	(441 192)	-	21 251 054
		<b>1 974 982 419</b>	<b>(18 730 412)</b>		<b>- 1 956 252 007</b>
<b>Total revenue</b>		<b>4 451 345 608</b>	<b>(35 604 476)</b>		<b>- 4 415 741 132</b>
<b>Expenditure</b>					
Employee related cost	36	(1 026 750 358)	-	-	(1 026 750 358)
Remuneration of councillors	37	(39 349 489)	-	-	(39 349 489)
Debt impairment / write-off		(199 542 544)	-	-	(199 542 544)
Depreciation, amortisation and impairment	39	(761 893 476)	(282 929)	-	(762 176 405)
Finance costs	40	(59 778 378)	41 446	-	(59 736 932)
Bulk purchases	41	(878 180 154)	-	-	(878 180 154)
Inventory consumed	42	(341 046 818)	-	86 994 953	(254 051 865)
Contracted services	43	(949 192 290)	(55 120 392)	-	(1 004 312 682)
Government grants and subsidies	44	(45 240 000)	-	-	(45 240 000)
Operational cost	45	(239 050 060)	(509 729)	-	(239 559 789)
<b>Total expenditure</b>		<b>(4 540 023 567)</b>	<b>(55 871 604)</b>	<b>86 994 953</b>	<b>(4 508 900 218)</b>
<b>Gains and losses</b>					
Loss on disposal of assets	46	(69 947 563)	1 660 000	-	(68 287 563)
Fair value adjustments	47	(15 875 045)	(796 010)	-	(16 671 055)
Inventories (write-down)	48	(29 116 710)	(86 994 953)	-	(116 111 663)
Impairment losses		(18 534 834)	6 894	-	(18 527 940)
<b>Total Gains and losses</b>		<b>(133 474 152)</b>	<b>(86 124 069)</b>		<b>- (219 598 221)</b>

#### Statement of Financial Position

#### Receivables from exchange transactions

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

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### 63. GRAP 3 adjustments (continued)

Balance as previously reported	779 871 516
Raising of debtor for land sold in prior years	1 909 000
	-
Correction of customer accounts	(18 017 925)
Correction of municipal accounts	(387 012)
Correction of journal omitted during AFS preparation in the prior year	(212 650)
Reclassification of impairment of other debtors from consumer debtors to other receivables	6 345 312
Reclassification of operating lease straight lining from other receivables from exchange transactions to property rental	27 315 428
	<b>796 823 669</b>

### Other receivables from exchange transactions

Balance as previously reported	62 529 284
Correction of accounting treatment of councillor debt	674 788
Reclassification of impairment of other debtors from consumer debtors to other receivables	(6 345 312)
Reclassification of impairment from abeyance to R/D cheques	1 449 164
Reclassification of impairment from abeyance to housing selling scheme	144 352
Reclassification of operating lease straight lining to property rental debtors	(27 315 428)
	<b>31 136 848</b>

### Receivables from non exchange transactions

Balance as previously reported	313 617 270
Correction of customer accounts	(16 737 736)
Reclassification of impairment from abeyance to R/D cheques	(1 449 164)
Correction of municipal accounts	(136 329)
	<b>295 294 041</b>

### Inventory

Balance as previously reported	124 039 073
Correction of land inventory transferred in the previous periods	(1 386 240)
	<b>122 652 833</b>

### Property, plant and equipment

Balance as previously reported	12 800 862 402
Projects completed in prior year corrections	35 242 096
Derecognition of gated community roads infrastructure	(122 653 774)
Capitalisation and expensing of operational costs incorrectly paid through capital expenditure	(126 871 948)
Assessment of useful life correction of error	6 853 478
Disposal of finance lease vehicle correction	(179 766)
	<b>12 593 252 488</b>

### Investment property

Balance as previously reported	973 542 543
Correction of land inventory incorrectly included as part of the investment property (2021)	(11 180 400)
Correction of 2022 fair value adjustment relating to land inventory	(796 010)
Derecognition of investment property	(278 840)
	<b>961 287 293</b>

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

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### 63. GRAP 3 adjustments (continued)

#### Intangible assets

Balance as previously reported	190 141 144
Assessment of useful life correction of error	989 787
Capitalisation of software incorrectly omitted	90 980
Incorrect capitalisation of operating licences	(152 643 000)
	<b>38 578 911</b>

#### Living resources

Balance as previously reported	5 939 645
Correction of value of young species (mothers are valued with their young)	(27 000)
	-
	<b>5 912 645</b>

#### Consumer deposits

Balance as previously reported	67 555 872
Correction of journal omitted during audit preparation in the prior year	(209 797)
	<b>67 346 075</b>

#### Payables from exchange transactions

Balance as previously reported	827 391 377
Correction of accounting treatment relating to councillor debt	337 387
Recognition of agency fee received in advance	892 092
Correction of payment received from learners but services not yet rendered	441 730
	-
	-
	-
	<b>829 062 586</b>

#### Lease liability - Current

Balance as previously reported	8 256 113
Derecognition of leased asset disposed off in prior year	(41 073)
	<b>8 215 040</b>

#### VAT payable

Balance as previously reported	14 281 871
Raising of debtor for land sold in prior years	249 000
Reversal of VAT recognised on agency fee received in advance	(116 364)
Impact of VAT on correction of customer and municipal accounts	(47 717)
Reclassification of Net VAT refundable by SARS to VAT receivable	14 896 268
Separate disclosure of input VAT accrual	108 169 344
Separate disclosure of output VAT accrual	(137 432 402)
	-

#### VAT receivable

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

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### 63. GRAP 3 adjustments (continued)

Balance as previously reported	-
Reclassification from VAT payable (seperate disclosure)	14 896 268
	<u>14 896 268</u>

#### VAT Input Accrual

Balance as previously reported	-
Reclassification from VAT payable (seperate disclosure)	108 169 344
	<u>108 169 344</u>

#### VAT Output Accrual

Balance as previously reported	-
Reclassification from VAT payable (seperate disclosure)	137 432 402
	<u>137 432 402</u>

#### Non current lease liabilities

Balance as previously reported	14 721 270
Derecognition of leased asset disposed off in prior year	(151 838)
	<u>14 569 432</u>

#### Long term receivables

Balance as previously reported	144 352
Reclassification of impairment from abeyance to housing selling scheme	(144 352)
	<u>-</u>

#### Revaluation reserve

Balance as previously reported	7 659 112 138
Correction due to derecognition of roads infrastructure (Gated community)	(120 606 238)
Realignment of revaluation reserve	(55 224 804)
	<u>7 483 281 096</u>

#### Accumulated surplus



# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

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### 63. GRAP 3 adjustments (continued)

Balance as previously reported	5 826 484 637
Adjustments affecting periods prior to 2021-22 financial year	-
- Depreciation relating to disposed vehicle	85 834
- Depreciation relating to useful life reassessment	17 303 194
- Depreciation relating to projects not capitalised in the past	(6 754 838)
- Correction of amortisation	488 108
- Fair value correction relating to living and non living resources	(27 000)
- Fair value correction on duplicated land inventory	(11 180 400)
- Fair value impact on derecognition investment property	(278 840)
- Finance cost reversal relating to disposed vehicle	77 403
- Transport service cost reversal relating to disposed vehicle	(119 179)
- Gain/loss on disposal correction relating to leased vehicle	(294 991)
- Gain/loss on disposal correction relating to gated community infrastructure assets	(14 145 139)
- Gain/loss on disposal correction relating to realignment of movable assets	35 195
- Gain/loss on disposal correction relating to land inventory transferred out	(1 386 240)
- Gain/loss on disposal correction relating to redemption of disposed vehicle	268 513
- Incorrect capitalisation of intangible assets (operating licences)	(152 643 000)
- Reversal of incorrect capitalisation of Work in Progress	(428 800)
- Contracted services correction relating to RAL Roads that were removed from Work in Progress	(26 890 316)
- Transfer from revaluation	55 224 804
Adjustments of profit and loss items for the 2021-22 financial year:	-
- Service charges: Electricity	3 442 412
- Service charges: Water	(5 730 359)
- Service charges: Waste management	(1 232 235)
- Service charges: Waste water management	(3 049 718)
- Interest from receivables	(11 790 711)
- Interest from non exchange receivables	(4 827)
- Agency fees	(775 732)
- Property rates	(16 869 237)
- Operational revenue	847 123
- Sale of goods and services	(441 191)
- Contracted services	(55 120 392)
- Depreciation and amortisation	(282 928)
- Finance costs	41 446
- Operational costs	(509 729)
- Gain/(loss) on disposal of assets	1 660 000
- Fair value adjustments	(796 010)
- Impairment loss	6 895
	<b>5 595 213 752</b>

### Statement of Financial Performance

#### Property rates

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

---

### 63. GRAP 3 adjustments (continued)

Balance as previously reported	544 917 825
Correction of customer accounts	(16 869 237)
	<b>528 048 588</b>

#### Service charges - electricity

Balance as previously reported	1 214 406 449
Correction of customer accounts	3 442 410
	<b>1 217 848 859</b>

#### Service charges - water

Balance as previously reported	294 127 397
Correction of customer accounts	(5 730 358)
	<b>288 397 039</b>

#### Service charges - Waste water management

Balance as previously reported	166 196 547
Correction of customer accounts	(3 049 718)
	<b>163 146 829</b>

#### Service charges - Waste management

Balance as previously reported	147 037 830
Correction of customer accounts	(1 232 234)
	<b>145 805 596</b>

#### Sale of goods and rendering of services

Balance as previously reported	-
Correction of journal omitted during audit preparation in the prior year	21 692 246
Correction of payment received from learners but services not yet rendered	538
	(441 730)
	<b>21 251 054</b>

#### Operational revenue

Balance as previously reported	3 116 628
Reallocation of commission earned from expense to income	847 123
	<b>3 963 751</b>

#### Interest on receivables - exchange

Balance as previously reported	54 011 015
Correction of customer accounts	(11 790 711)
	<b>42 220 304</b>

#### Agency fees

Balance as previously reported	22 640 956
Reversal of agency fees recognised in the incorrect period	(775 732)

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

---

### 63. GRAP 3 adjustments (continued)

**21 865 224**

#### Depreciation and amortisation

Balance as previously reported	761 893 476
Correction of depreciation from gated community infrastructure derecognised	(3 525 653)
Correction of 2022 depreciation due to review of useful life	3 857 396
Correction of 2022 amortisation due to review of useful life	(48 815)
	<b>762 176 404</b>

#### Inventory consumed

Balance as previously reported	341 046 818
Reclassification of water losses to inventory write-down	(86 994 953)
	<b>254 051 865</b>

#### Finance cost

Balance as previously reported	59 778 378
Reversal of finance cost recognised on disposal of leased asset	(41 446)
	<b>59 736 932</b>

#### Inventories (write-down)

Balance as previously reported	29 116 710
Reclassification of water losses from inventor consumed	86 994 953
	<b>116 111 663</b>

#### Contracted services

Balance as previously reported	949 192 290
Impact of transport fees relating to leased assets disposed off	75 271
Correction of third party projects that were paid for using capital program	55 045 121
	<b>1 004 312 682</b>

#### Operational costs

Balance as previously reported	239 050 060
Correction of accounting treatment relating to councillor debt	(337 393)
Reallocation of commission earned from expense to income	847 123
	<b>239 559 790</b>

#### Loss on disposal of assets

Balance as previously reported	(69 947 563)
Correction of gain on disposal of properties previously recognised as revenue (audit finding correction)	1 660 000
	<b>(68 287 563)</b>

#### Fair value adjustment

Balance as previously reported	(15 875 045)
Correction of 2022 fair value adjustment relating to land inventory	(796 010)

# Polokwane Local Municipality

Audited Annual Financial Statements for the year ended 30 June 2023

## Notes to the Audited Annual Financial Statements

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### 63. GRAP 3 adjustments (continued)

**(16 671 055)**

#### Impairment loss

Balance as previously reported  
Impairment reversal

(18 534 834)  
6 894

**(18 527 940)**

#### Interest on receivables - non exchange

Balance as previously reported  
Correction of municipal accounts

28 235 969  
(4 827)

**28 231 142**

### 63.3 Adjustments of Disclosure Notes

#### Note 56.2: Related party transactions

Balance as previously reported  
Inclusion of Accounting fees paid on behalf of PHA - MMB Consulting

45 796 405  
1 225 381

**47 021 786**