



**Mangaung Metropolitan Municipality**  
Consolidated Annual Financial Statements  
for the year ended 30 June 2022

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## General Information

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|----------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Legal form of entity</b>                        | Municipality                                                                                                                                                                                                                                                                             |
| <b>Nature of business and principal activities</b> | Providing municipal services and maintaining the best interest of the local community, mainly in the Mangaung area.                                                                                                                                                                      |
| <b>Grading of local authority</b>                  | Metropolitan                                                                                                                                                                                                                                                                             |
| <b>Mayoral committee</b>                           |                                                                                                                                                                                                                                                                                          |
| Executive Mayor                                    | Siyonzana MA                                                                                                                                                                                                                                                                             |
| Councillors                                        | Jonas-Malephane VE<br>Lockman SB<br>Matsoetlane MJ<br>Mogotloane TJ<br>Morake MA<br>Mosala MT<br>Mothibi-Nkoane MM<br>Nikelo VE<br>Titi-Odili LM<br>Tladi MM<br>Twala PS<br>Van der Ross KE                                                                                              |
| <b>Deputy Executive Mayor</b>                      | Mothibi-Nkoane MM                                                                                                                                                                                                                                                                        |
| <b>Speaker</b>                                     | Lockman SB                                                                                                                                                                                                                                                                               |
| <b>National Cabinet Representative</b>             | Maseko P (Till 31 October 2022)<br><br>Malaza G (From 1 November 2022)                                                                                                                                                                                                                   |
| <b>Accounting Officer</b>                          | Motlashuping T (Acting City Manager)                                                                                                                                                                                                                                                     |
| <b>Chief Financial Officer</b>                     | Sediti T (Acting)                                                                                                                                                                                                                                                                        |
| <b>Registered office</b>                           | Bram Fischer Building<br>Cnr Nelson Mandela Drive and Markgraaff Street<br>Bloemfontein<br>9301                                                                                                                                                                                          |
| <b>Postal address</b>                              | PO Box 3704<br>Bloemfontein<br>9301                                                                                                                                                                                                                                                      |
| <b>Bankers</b>                                     | Nedbank<br>ABSA<br>Development Bank of South Africa<br>Standard Bank                                                                                                                                                                                                                     |
| <b>Auditors</b>                                    | Auditor General of South Africa                                                                                                                                                                                                                                                          |
| <b>Enabling legislation</b>                        | Municipal Finance Management Act, (Act 56 of 2003)<br>Municipal Systems Act, (Act 32 of 2000)<br>Municipal Structures Act, (Act 117 of 1998)<br>Municipal Property Rates Act, (Act 3 of 2017)<br>Division of Revenue Act (Act 16 of 2019)<br>Municipal Demarcation Act, (Act 27 of 1998) |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

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# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Abbreviations

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### 1. Abbreviations used within the annual financial statements

|         |                                                                             |
|---------|-----------------------------------------------------------------------------|
| ACT     | Actual                                                                      |
| BAL     | Balance                                                                     |
| CAPEX   | Capital expenditure                                                         |
| CFO     | Chief Financial Officer                                                     |
| COGTA   | Cooperative Governance and Traditional Affairs                              |
| COID    | Compensation for Occupational Injuries and Diseases                         |
| CPI     | Consumer Price Index                                                        |
| DOE     | Department of Energy                                                        |
| DBSA    | Development Bank of South Africa                                            |
| FRESHCO | Free State Social Housing Company                                           |
| GRAP    | Generally Recognised Accounting Practice                                    |
| HOD     | Head of Directorate                                                         |
| IAS     | International Accounting Standards                                          |
| IFRS    | International Financial Reporting Standards                                 |
| IPSAS   | International Public Sector Accounting Standards                            |
| IPSASB  | International Public Sector Accounting Standards Board                      |
| IGRAP   | Interpretation of the Standards of Generally Recognised Accounting Practice |
| IPTN    | Integrated Public Transport Network                                         |
| MEC     | Member of the Executive Council                                             |
| MFMA    | Municipal Finance Management Act, (Act 56 of 2003)                          |
| NDR     | Non-distributable Reserve                                                   |
| NERSA   | National Energy Regulator of South Africa                                   |
| NRV     | Net Realisable Value                                                        |
| OPEX    | Operational expenditure                                                     |
| PAYE    | Pay As You Earn                                                             |
| PPE     | Property, Plant and Equipment                                               |
| SALGA   | South African Local Government Association                                  |
| SARS    | South African Revenue Service                                               |
| SCM     | Supply Chain Management                                                     |
| SDL     | Skills Development Levy                                                     |
| SOC     | State Owned Company                                                         |
| UIF     | Unemployment Insurance Fund                                                 |
| VAT     | Value Added Tax                                                             |
| WIP     | Work-in-Progress                                                            |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## 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 consolidated annual financial statements and related financial information included in this report.

It is the responsibility of the accounting officer to ensure that the consolidated 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 consolidated annual financial statements and was given unrestricted access to all financial records and related data.

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

The accounting officer acknowledge that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost-effective manner.

The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach.

The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is responsible for the preparation of these annual financial statements in terms of Section 126(1) of the Municipal Finance Management Act, (Act 56 of 2003), and has signed on behalf of the entity.

The accounting officer certifies that the salaries, allowances and benefits of Councillors, loans made to Councillors, if any, and payments made to Councillors for loss of office, if any, as disclosed in note 44 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, 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 this Act.

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 consolidated 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 2023 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

Although the accounting officer is primarily responsible for the financial affairs of the municipality, he is supported by the municipality's external auditors to express an independent opinion on the fair presentation of the annual financial statements.

The consolidated annual financial statements set out on pages 7 to 146, which have been prepared on the going concern basis, were approved by the accounting officer on 30 September 2022 and were signed on its behalf by:



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**Motlashuping T**  
**Acting City Manager**

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Officer's Report

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The accounting officer submits his report for the year ended 30 June 2022.

### 1. Review of activities

#### Main business and operations

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

Net deficit of the municipality was R 872,688,325 (2021: deficit R 20,230,382).

### 2. Going concern

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

The entity still has the power to levy rates and taxes and it will continue to receive funding from government as evident from the equitable share allocation in terms of the Division of Revenue Act, (Act 4 of 2020).

Refer to Going Concern note 62 for more detail.

### 3. Subsequent events

The municipality embarked on a process of compiling the 2022 to 2024 indigent register to ensure implementation of free basic services to deserving and qualifying poor households in line with the Council approved indigent policy.

During a special council meeting held on 19 August 2022 it has been resolved that additional indigent accounts should be included in the 2022 indigent register for write-off in the 2022 financial year.

The municipality increased indigent debt write-off for the 2022 financial year by R141,692,461, refer to Note 49 for further information.

The additional write-off was included in the 2022 financial year's transactions.

### 4. Accounting Officers' interest in contracts

None

### 5. Accounting Officers

The accounting officers of the municipality during the year and to the date of this report are as follows:

| Name           | Nationality   | Description                                                                                |
|----------------|---------------|--------------------------------------------------------------------------------------------|
| Adv Mea TB     | South African | Suspended until 31 July 2021 then resigned.                                                |
| More S         | South African | Acting from 1 August 2021 until 31 October 2021 and 1 November 2021 until 26 January 2022. |
| Maine T        | South African | Acting from 21 May 2021 until 31 July 2021 and 26 January 2022 until 10 February 2022      |
| Nkungwana MG   | South African | Acting from 22 February 2022 until 31 March 2022.                                          |
| Motlashuping T | South African | Acting from 20 April 2022 (Acting City Manager).                                           |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Officer's Report

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### 6. Intervention team

The administrative team is comprised of the following members effective from 1 January 2020:

1. Adv Mofokeng M – Office of the Premier.
2. Sesing M – Provincial Accountant General & CA.
3. Mokheseng D – Provincial COGTA.
4. Mohlahlo E – Acting Head Public Works & Infrastructure.
5. Mkaza TL – Vast experience in local government.
6. Mawonga T - Vast experience in local government (from 3 May 2021).
7. Ntoyi L - Vast experience in local government (from 3 May 2021).

In addition to the above National Cabinet requested on the 06 April 2022 for National Treasury to intervene in the affairs of Mangaung Metropolitan Municipality. The Minister for Finance approved the national intervention in terms of section 139(7) of the Constitution of the Republic of South Africa Act, 1996 ("the Constitution") read with section 150 of the MFMA, on 26 April 2022 and was published on 28 April 2022.

The interim intervention team is comprised of the following members and their assumed positions from 20 April 2022:

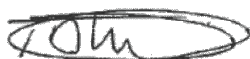
1. Maseko E - Interim National Cabinet Representative (resigned)
2. Motlashuping T (National COGTA) - Acting City Manager
3. Sediti T (National Treasury) - Acting CFO
4. Adv Mpangane N (National COGTA) - Acting HOD Corporate services
5. McLeod WR - Acting HOD Engineering
6. Mosehana-Dumalisile NR (Department of Human Settlements) - Acting HOD Human Settlement
7. Manyungwana XC (Department of Transport) - Fleet Management
8. Nel F (Department of Forestry Fisheries and the Environment) - Waste Management

The National intervention team from 22 July 2022 were as follows:

1. Maseko P - National Cabinet Representative (till 31 October 2022)
2. Malaza G - National Cabinet Representative (from 1 November 2022)
3. Mewalall S - Finance Specialist
4. Mngomane E - Service Delivery Specialist
5. Mapholoba L - Governance Specialist

### 7. Date of signature

The consolidated annual financial statements set out on pages 7 to 146, which have been prepared on the going concern basis, were approved by the accounting officer on 30 September 2022 and were signed on his behalf by:



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**Motlashuping T**  
**Acting City Manager**

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Statement of Financial Position as at 30 June 2022

| Figures in Rand                                     | Notes | 2022                  | 2021<br>Restated*     |
|-----------------------------------------------------|-------|-----------------------|-----------------------|
| <b>Assets</b>                                       |       |                       |                       |
| <b>Current Assets</b>                               |       |                       |                       |
| Inventories                                         | 3     | 673,784,848           | 630,053,689           |
| Other receivables from non-exchange transactions    | 4     | 764,212               | 950,267               |
| Consumer receivables from exchange transactions     | 5     | 1,380,600,289         | 1,661,051,796         |
| Consumer receivables from non-exchange transactions | 6     | 338,888,440           | 766,473,521           |
| Other receivables from exchange transactions        | 7     | 223,316,415           | 188,685,679           |
| Cash and cash equivalents                           | 8     | 740,533,470           | 211,499,931           |
| Non-current receivables                             | 13    | 273,713               | 275,470               |
|                                                     |       | <b>3,358,161,387</b>  | <b>3,458,990,353</b>  |
| <b>Non-Current Assets</b>                           |       |                       |                       |
| Investment property                                 | 9     | 1,585,611,015         | 1,570,916,988         |
| Property, plant and equipment                       | 10    | 17,899,667,495        | 18,195,215,301        |
| Intangible assets                                   | 11    | 134,747,651           | 105,040,291           |
| Heritage assets                                     | 12    | 244,666,687           | 279,968,687           |
| Non-current receivables                             | 13    | 452,713               | 703,015               |
| Living resources                                    | 14    | 3,675,801             | 2,791,001             |
| Deferred tax                                        | 15    | 1,342,777,625         | 1,288,903,893         |
|                                                     |       | <b>21,211,598,987</b> | <b>21,443,539,176</b> |
| <b>Total Assets</b>                                 |       | <b>24,569,760,374</b> | <b>24,902,529,529</b> |
| <b>Liabilities</b>                                  |       |                       |                       |
| <b>Current Liabilities</b>                          |       |                       |                       |
| Payables from exchange transactions                 | 16    | 2,391,868,669         | 2,175,529,344         |
| Payables from non-exchange transactions             | 17    | 307,755,239           | 336,624,132           |
| VAT payable                                         | 18    | 62,626,296            | 91,574,156            |
| Consumer deposits                                   | 19    | 164,213,600           | 160,393,916           |
| Unspent conditional grants and receipts             | 20    | 571,039,043           | 35,662,707            |
| Finance lease obligation                            | 21    | 14,084,861            | 13,644,441            |
| Borrowings                                          | 22    | 198,773,506           | 159,459,306           |
| Provisions                                          | 23    | 98,748,234            | 616,660,269           |
| Employee benefit obligation                         | 24    | 34,496,000            | 37,210,000            |
|                                                     |       | <b>3,843,605,448</b>  | <b>3,626,758,271</b>  |
| <b>Non-Current Liabilities</b>                      |       |                       |                       |
| Deferred tax                                        | 15    | 1,358,071,535         | 1,383,924,798         |
| Finance lease obligation                            | 21    | 1,511,179             | 41,721,077            |
| Borrowings                                          | 22    | 470,121,326           | 616,971,668           |
| Provisions                                          | 23    | 628,688,755           | 64,716,945            |
| Employee benefit obligation                         | 24    | 579,013,001           | 571,435,000           |
| FRESHCO                                             | 25    | 149,520,237           | 163,648,133           |
| Land availability                                   | 26    | 267,561,408           | 282,670,558           |
|                                                     |       | <b>3,454,487,441</b>  | <b>3,125,088,179</b>  |
| <b>Total Liabilities</b>                            |       | <b>7,298,092,889</b>  | <b>6,751,846,450</b>  |
| <b>Net Assets</b>                                   |       | <b>17,271,667,485</b> | <b>18,150,683,079</b> |
| <b>Reserves</b>                                     |       |                       |                       |
| Revaluation reserve                                 | 27    | 4,966,163,388         | 4,989,275,243         |
| Self-insurance reserve                              | 28    | 10,000,000            | 10,000,000            |
| COVID reserve                                       | 29    | 19,139,985            | 20,890,377            |
| Other NDR                                           | 30    | 60,000,000            | 60,000,000            |
| Accumulated surplus                                 |       | 12,216,364,112        | 13,070,517,459        |
| <b>Total Net Assets</b>                             |       | <b>17,271,667,485</b> | <b>18,150,683,079</b> |

\* See Note 70

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Statement of Financial Performance

| Figures in Rand                                     | Notes | 2022                   | 2021<br>Restated*      |
|-----------------------------------------------------|-------|------------------------|------------------------|
| <b>Revenue</b>                                      |       |                        |                        |
| <b>Revenue from exchange transactions</b>           |       |                        |                        |
| Service charges                                     | 32    | 4,328,743,177          | 4,026,663,848          |
| Rental of facilities and equipment                  | 33    | 49,216,654             | 48,546,578             |
| Other income from exchange transactions             | 36    | 102,137,323            | 87,630,650             |
| Interest received from exchange transactions        | 37    | 297,882,227            | 216,509,311            |
| Dividends received                                  | 37    | 2,656                  | 2,248                  |
| Agency services                                     | 38    | 5,942,316              | 6,444,060              |
| <b>Total revenue from exchange transactions</b>     |       | <b>4,783,924,353</b>   | <b>4,385,796,695</b>   |
| <b>Revenue from non-exchange transactions</b>       |       |                        |                        |
| Living resources                                    | 14    | 444,200                | 334,600                |
| Interest received from non-exchange transactions    | 35    | 73,192,006             | 40,713,151             |
| Property rates                                      | 39    | 1,387,795,158          | 1,190,390,992          |
| <b>Transfer revenue</b>                             |       |                        |                        |
| Fines, penalties and forfeits                       | 34    | 15,894,605             | 20,256,492             |
| Government grants & subsidies                       | 41    | 2,080,812,087          | 2,040,443,181          |
| Public contributions and donations                  | 42    | 2,900,907              | -                      |
| <b>Total revenue from non-exchange transactions</b> |       | <b>3,561,038,963</b>   | <b>3,292,138,416</b>   |
| <b>Total revenue</b>                                | 31    | <b>8,344,963,316</b>   | <b>7,677,935,111</b>   |
| <b>Expenditure</b>                                  |       |                        |                        |
| Employee related costs                              | 43    | (2,229,823,135)        | (2,184,969,037)        |
| Remuneration of councillors                         | 44    | (67,894,942)           | (65,531,323)           |
| Depreciation and amortisation                       | 45    | (906,656,592)          | (946,173,215)          |
| Finance costs                                       | 47    | (245,309,601)          | (198,709,918)          |
| Debt impairment and bad debt write off              | 49    | (1,857,510,907)        | (823,611,587)          |
| Bulk purchases                                      | 51    | (2,897,178,397)        | (2,523,606,439)        |
| Contracted services                                 | 52    | (616,465,205)          | (579,730,537)          |
| Grants and subsidies paid                           | 40    | -                      | (1,989)                |
| General expenses                                    | 50    | (378,259,524)          | (318,414,803)          |
| <b>Total expenditure</b>                            |       | <b>(9,199,098,303)</b> | <b>(7,640,748,848)</b> |
| <b>Operating (deficit) / surplus</b>                |       | <b>(854,134,987)</b>   | <b>37,186,263</b>      |
| Inventories losses/write-downs                      | 3     | (3,912,110)            | (4,472,574)            |
| Actuarial gains/(losses)                            | 24    | 46,665,101             | (39,319,997)           |
| Impairment loss                                     | 46    | (25,221,367)           | (5,851,236)            |
| Fair value adjustments                              | 53    | 15,044,854             | (313,480)              |
| Loss on disposal of assets and liabilities          | 54    | (17,451,494)           | (29,820,446)           |
| Loss on revaluation of assets                       | 55    | (113,405,317)          | -                      |
|                                                     |       | <b>(98,280,333)</b>    | <b>(79,777,733)</b>    |
| <b>Deficit before taxation</b>                      |       | <b>(952,415,320)</b>   | <b>(42,591,470)</b>    |
| Taxation                                            | 72    | 79,726,995             | 22,361,088             |
| <b>Deficit for the year</b>                         |       | <b>(872,688,325)</b>   | <b>(20,230,382)</b>    |

\* See Note 70

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Statement of Changes in Net Assets

| Figures in Rand                                                        | Revaluation reserve  | Other NDR         | Self-insurance reserve | COVID reserve     | Total reserves       | Accumulated surplus / deficit | Total net assets      |
|------------------------------------------------------------------------|----------------------|-------------------|------------------------|-------------------|----------------------|-------------------------------|-----------------------|
| Opening balance as previously reported                                 | 5,018,707,913        | 60,000,000        | 10,000,000             | 22,287,275        | 5,110,995,188        | 13,085,624,745                | 18,196,619,933        |
| Adjustments                                                            |                      |                   |                        |                   |                      |                               |                       |
| Prior year adjustments 70                                              | (8,079,360)          | -                 | -                      | -                 | (8,079,360)          | (14,636,280)                  | (22,715,640)          |
| <b>Balance at 01 July 2020 as restated*</b>                            | <b>5,010,628,553</b> | <b>60,000,000</b> | <b>10,000,000</b>      | <b>22,287,275</b> | <b>5,102,915,828</b> | <b>13,070,988,465</b>         | <b>18,173,904,293</b> |
| Changes in net assets                                                  |                      |                   |                        |                   |                      |                               |                       |
| Surplus for the year as previously reported                            | -                    | -                 | -                      | -                 | -                    | 7,106,063                     | 7,106,063             |
| Contributions received                                                 | -                    | -                 | 354,267                | -                 | 354,267              | (354,267)                     | -                     |
| Insurance claims processed                                             | -                    | -                 | (354,267)              | (1,396,898)       | (1,751,165)          | 1,751,165                     | -                     |
| Realisation of the revaluation reserve through depreciation            | (18,362,477)         | -                 | -                      | -                 | (18,362,477)         | 18,362,477                    | -                     |
| Revaluation of assets                                                  | (2,990,833)          | -                 | -                      | -                 | (2,990,833)          | -                             | (2,990,833)           |
| Prior year adjustments, note 70                                        | -                    | -                 | -                      | -                 | -                    | (27,336,444)                  | (27,336,444)          |
| <b>Balance at 01 July 2021 as restated*</b>                            | <b>4,989,275,243</b> | <b>60,000,000</b> | <b>10,000,000</b>      | <b>20,890,377</b> | <b>5,080,165,620</b> | <b>13,070,517,476</b>         | <b>18,150,683,096</b> |
| Changes in net assets                                                  |                      |                   |                        |                   |                      |                               |                       |
| Surplus for the year                                                   | -                    | -                 | -                      | -                 | -                    | (872,688,325)                 | (872,688,325)         |
| Contributions received                                                 | -                    | -                 | 1,110,570              | -                 | 1,110,570            | (1,110,570)                   | -                     |
| Insurance claims processed                                             | -                    | -                 | (1,110,570)            | (1,750,392)       | (2,860,962)          | 2,860,962                     | -                     |
| Realisation of the revaluation reserve through depreciation            | (17,977,106)         | -                 | -                      | -                 | (17,977,106)         | 16,784,569                    | (1,192,537)           |
| Revaluation of assets                                                  | (5,134,749)          | -                 | -                      | -                 | (5,134,749)          | -                             | (5,134,749)           |
| Total changes                                                          | (23,111,855)         | -                 | -                      | (1,750,392)       | (24,862,247)         | (854,153,364)                 | (879,015,611)         |
| <b>Balance at 30 June 2022</b>                                         | <b>4,966,163,388</b> | <b>60,000,000</b> | <b>10,000,000</b>      | <b>19,139,985</b> | <b>5,055,303,373</b> | <b>12,216,364,112</b>         | <b>17,271,667,485</b> |
| * Prior period errors and change in accounting policy refer to note 70 | 27                   | 30                | 28                     | 29                |                      |                               |                       |

\* See Note 70

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Cash Flow Statement

| Figures in Rand                                             | Notes | 2022                   | 2021<br>Restated*      |
|-------------------------------------------------------------|-------|------------------------|------------------------|
| <b>Cash flows from operating activities</b>                 |       |                        |                        |
| <b>Receipts</b>                                             |       |                        |                        |
| Cash receipts from customers                                |       | 4,679,648,407          | 4,328,427,355          |
| Grants received                                             |       | 2,616,188,423          | 1,639,876,828          |
| Interest income                                             |       | 370,632,261            | 256,596,239            |
| Dividends received                                          |       | 2,656                  | 2,248                  |
|                                                             |       | <b>7,666,471,747</b>   | <b>6,224,902,670</b>   |
| <b>Payments</b>                                             |       |                        |                        |
| Employee costs                                              |       | (2,330,444,529)        | (2,207,336,899)        |
| Suppliers                                                   |       | (3,763,126,542)        | (3,235,365,242)        |
| Finance costs                                               |       | (37,428,889)           | (14,645,173)           |
| Grant paid                                                  |       | -                      | (1,989)                |
|                                                             |       | <b>(6,130,999,960)</b> | <b>(5,457,349,303)</b> |
| <b>Net cash flows from operating activities</b>             | 56    | <b>1,535,471,787</b>   | <b>767,553,367</b>     |
| <b>Cash flows from investing activities</b>                 |       |                        |                        |
| Purchase of property, plant and equipment                   | 10    | (737,866,568)          | (656,640,217)          |
| Proceeds from sale of investment property                   | 9     | 338,618                | -                      |
| Purchase of other intangible assets                         | 11    | (45,327,948)           | (10,707,650)           |
| Proceeds from non-current receivables                       |       | 264,268                | 310,790                |
| Interest Income                                             |       | 454,546                | 608,433                |
| <b>Net cash flows from investing activities</b>             |       | <b>(782,137,084)</b>   | <b>(666,428,644)</b>   |
| <b>Cash flows from financing activities</b>                 |       |                        |                        |
| Repayment of borrowings                                     |       | (107,536,142)          | (120,369,558)          |
| Repayment of finance leases                                 |       | (39,769,478)           | (95,673,916)           |
| Finance costs                                               |       | (76,995,544)           | (101,319,990)          |
| <b>Net cash flows from financing activities</b>             |       | <b>(224,301,164)</b>   | <b>(317,363,464)</b>   |
| <b>Net increase/(decrease) in cash and cash equivalents</b> |       | <b>529,033,539</b>     | <b>(216,238,741)</b>   |
| Cash and cash equivalents at the beginning of the year      |       | 211,499,931            | 427,738,672            |
| <b>Cash and cash equivalents at the end of the year</b>     | 8     | <b>740,533,470</b>     | <b>211,499,931</b>     |

\* See Note 70

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Statement of Comparison of Budget and Actual Amounts

| Budget on Accrual Basis                                               |                        |           |                        |                        |                        |           |
|-----------------------------------------------------------------------|------------------------|-----------|------------------------|------------------------|------------------------|-----------|
| Figures in Rand                                                       | Final approved budget  | Virements | Final Budget           | Actual amounts         | Difference             | Reference |
| <b>Statement of Financial Performance</b>                             |                        |           |                        |                        |                        |           |
| <b>Revenue</b>                                                        |                        |           |                        |                        |                        |           |
| <b>Revenue from exchange transactions</b>                             |                        |           |                        |                        |                        |           |
| Service charges                                                       | 4,784,095,814          | -         | 4,784,095,814          | 4,328,743,177          | (455,352,637)          | 71.1      |
| Rental of facilities and equipment                                    | 22,568,657             | -         | 22,568,657             | 49,216,654             | 26,647,997             | 71.2      |
| Agency services                                                       | -                      | -         | -                      | 5,942,316              | 5,942,316              | 71.3      |
| Other income from exchange transactions                               | 529,744,639            | -         | 529,744,639            | 102,137,323            | (427,607,316)          | 71.4      |
| Interest received from exchange transactions                          | 252,517,244            | -         | 252,517,244            | 297,882,227            | 45,364,983             | 71.5      |
| Dividends received                                                    | 2,248                  | -         | 2,248                  | 2,656                  | 408                    | 71.6      |
| <b>Total revenue from exchange transactions</b>                       | <b>5,588,928,602</b>   | <b>-</b>  | <b>5,588,928,602</b>   | <b>4,783,924,353</b>   | <b>(805,004,249)</b>   |           |
| <b>Revenue from non-exchange transactions</b>                         |                        |           |                        |                        |                        |           |
| <b>Taxation revenue</b>                                               |                        |           |                        |                        |                        |           |
| Property rates                                                        | 1,403,471,743          | -         | 1,403,471,743          | 1,387,795,158          | (15,676,585)           | 71.7      |
| Interest received from non-exchange transactions                      | 14,272,159             | -         | 14,272,159             | 73,192,006             | 58,919,847             |           |
| <b>Transfer revenue</b>                                               |                        |           |                        |                        |                        |           |
| Government grants & subsidies                                         | 947,044,061            | -         | 947,044,061            | 1,172,479,964          | 225,435,903            | 71.8      |
| Public contributions and donations                                    | -                      | -         | -                      | 2,900,907              | 2,900,907              | 71.9      |
| Fines, penalties and forfeits                                         | 26,286,713             | -         | 26,286,713             | 15,894,605             | (10,392,108)           | 71.10     |
| Living resources                                                      | -                      | -         | -                      | 444,200                | 444,200                | 71.11     |
| <b>Total revenue from non-exchange transactions</b>                   | <b>2,391,074,676</b>   | <b>-</b>  | <b>2,391,074,676</b>   | <b>2,652,706,840</b>   | <b>261,632,164</b>     |           |
| <b>Total revenue (excluding capital transfers and contributions)</b>  | <b>7,980,003,278</b>   | <b>-</b>  | <b>7,980,003,278</b>   | <b>7,436,631,193</b>   | <b>(543,372,085)</b>   |           |
| <b>Expenditure</b>                                                    |                        |           |                        |                        |                        |           |
| Employee related cost                                                 | (2,186,418,072)        | -         | (2,186,418,072)        | (2,229,823,135)        | (43,405,063)           |           |
| Remuneration of councillors                                           | (66,355,599)           | -         | (66,355,599)           | (67,894,942)           | (1,539,343)            |           |
| Depreciation and amortisation                                         | (300,281,194)          | -         | (300,281,194)          | (906,656,592)          | (606,375,398)          | 71.12     |
| Finance costs                                                         | (198,939,108)          | -         | (198,939,108)          | (245,309,601)          | (46,370,493)           | 71.13     |
| Debt impairment & bad debt write-off                                  | (943,784,132)          | -         | (943,784,132)          | (1,857,510,907)        | (913,726,775)          | 71.14     |
| Bulk purchases                                                        | (2,569,760,289)        | -         | (2,569,760,289)        | (2,897,178,397)        | (327,418,108)          | 71.15     |
| Contracted services                                                   | (568,563,593)          | -         | (568,563,593)          | (616,465,205)          | (47,901,612)           | 71.16     |
| Grants and subsidies paid                                             | (2,829,740)            | -         | (2,829,740)            | -                      | 2,829,740              |           |
| General expenses                                                      | (330,456,830)          | -         | (330,456,830)          | (378,259,524)          | (47,802,694)           | 71.17     |
| <b>Total expenditure</b>                                              | <b>(7,167,388,557)</b> | <b>-</b>  | <b>(7,167,388,557)</b> | <b>(9,199,098,303)</b> | <b>(2,031,709,746)</b> |           |
| <b>Operating deficit</b>                                              | <b>812,614,721</b>     | <b>-</b>  | <b>812,614,721</b>     | <b>(1,762,467,110)</b> | <b>(2,575,081,831)</b> |           |
| Loss on disposal of assets and liabilities                            | (274,881,009)          | -         | (274,881,009)          | (17,451,494)           | 257,429,515            | 71.18     |
| Fair value adjustments                                                | -                      | -         | -                      | 15,044,854             | 15,044,854             | 71.19     |
| Actuarial gains/(losses)                                              | -                      | -         | -                      | 46,665,101             | 46,665,101             | 71.20     |
| Impairment loss                                                       | -                      | -         | -                      | (25,221,367)           | (25,221,367)           | 71.13     |
| Inventories losses/write-downs                                        | -                      | -         | -                      | (3,912,110)            | (3,912,110)            | 71.21     |
| Loss on revaluation of assets                                         | -                      | -         | -                      | (113,405,317)          | (113,405,317)          | 71.22     |
|                                                                       | <b>(274,881,009)</b>   | <b>-</b>  | <b>(274,881,009)</b>   | <b>(98,280,333)</b>    | <b>176,600,676</b>     |           |
| <b>Surplus / (Deficit) before capital transfers and contributions</b> | <b>537,733,712</b>     | <b>-</b>  | <b>537,733,712</b>     | <b>(1,860,747,443)</b> | <b>(2,398,481,155)</b> |           |
| Transfers recognised - Capital                                        | 1,380,901,331          | -         | 1,380,901,331          | 908,332,123            | (472,569,208)          | 71.23     |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Statement of Comparison of Budget and Actual Amounts

| Budget on Accrual Basis                                              |                       |           |                      |                      |                        |           |
|----------------------------------------------------------------------|-----------------------|-----------|----------------------|----------------------|------------------------|-----------|
| Figures in Rand                                                      | Final approved budget | Virements | Final Budget         | Actual amounts       | Difference             | Reference |
| <b>Deficit for the year from continuing operations</b>               | <b>1,918,635,043</b>  | -         | <b>1,918,635,043</b> | <b>(952,415,320)</b> | <b>(4,687,714,609)</b> |           |
| Tax expense                                                          | -                     | -         | -                    | 79,726,995           | <b>79,726,995</b>      | 71.24     |
| <b>Surplus / (Deficit) after capital transfers and contributions</b> | <b>1,918,635,043</b>  | -         | <b>1,918,635,043</b> | <b>(872,688,325)</b> | <b>(4,607,987,614)</b> |           |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand                        | Final approved budget | Virements | Final Budget          | Actual amounts        | Difference             | Reference |
|----------------------------------------|-----------------------|-----------|-----------------------|-----------------------|------------------------|-----------|
| <b>Statement of Financial Position</b> |                       |           |                       |                       |                        |           |
| <b>Current Assets</b>                  |                       |           |                       |                       |                        |           |
| Total current assets                   | 4,656,111,998         | -         | 4,656,111,998         | 3,358,161,387         | (1,297,950,611)        | 71.25     |
| <b>Non-Current Assets</b>              |                       |           |                       |                       |                        |           |
| Total Non-current assets               | 23,785,866,988        | -         | 23,785,866,988        | 21,211,598,987        | (2,574,268,001)        | 71.26     |
| <b>Total Assets</b>                    | <b>28,441,978,986</b> | <b>-</b>  | <b>28,441,978,986</b> | <b>24,569,760,374</b> | <b>(3,872,218,612)</b> |           |
| <b>Current Liabilities</b>             |                       |           |                       |                       |                        |           |
| Total current liabilities              | 1,854,129,477         | -         | 1,854,129,477         | 3,843,605,448         | 1,989,475,971          | 71.27     |
| <b>Non-Current Liabilities</b>         |                       |           |                       |                       |                        |           |
| Total Non-current liabilities          | 2,350,699,195         | -         | 2,350,699,195         | 3,454,487,441         | 1,103,788,246          | 71.28     |
| <b>Total Liabilities</b>               | <b>4,204,828,672</b>  | <b>-</b>  | <b>4,204,828,672</b>  | <b>7,298,092,889</b>  | <b>3,093,264,217</b>   |           |
| <b>Net Assets</b>                      | <b>24,237,150,314</b> | <b>-</b>  | <b>24,237,150,314</b> | <b>17,271,667,485</b> | <b>(6,965,482,829)</b> |           |
| <b>Net Assets</b>                      |                       |           |                       |                       |                        |           |
| <b>Reserves</b>                        |                       |           |                       |                       |                        |           |
| Total reserves                         | 24,237,150,314        | -         | 24,237,150,314        | 17,271,667,485        | (6,965,482,829)        | 71.29     |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Statement of Comparison of Budget and Actual Amounts

| Budget on Accrual Basis                                 |                        |           |                        |                        |                        |           |
|---------------------------------------------------------|------------------------|-----------|------------------------|------------------------|------------------------|-----------|
| Figures in Rand                                         | Final approved budget  | Virements | Final Budget           | Actual amounts         | Difference             | Reference |
| <b>Cash Flow Statement</b>                              |                        |           |                        |                        |                        |           |
| <b>Cash flows from operating activities</b>             |                        |           |                        |                        |                        |           |
| <b>Receipts</b>                                         |                        |           |                        |                        |                        |           |
| Cash receipts from customers                            | 6,943,947,788          | -         | 6,943,947,788          | 4,679,648,407          | (2,264,299,381)        | 71.30     |
| Grants received                                         | 1,856,125,613          | -         | 1,856,125,613          | 2,616,188,423          | 760,062,810            | 71.30     |
| Interest income                                         | 19,765,838             | -         | 19,765,838             | 370,632,261            | 350,866,423            | 71.30     |
| Dividends received                                      | 2,248                  | -         | 2,248                  | 2,656                  | 408                    | 71.30     |
|                                                         | <b>8,819,841,487</b>   | -         | <b>8,819,841,487</b>   | <b>7,666,471,747</b>   | <b>(1,153,369,740)</b> |           |
| <b>Payments</b>                                         |                        |           |                        |                        |                        |           |
| Supplier and employee cost                              | (6,558,953,000)        | -         | (6,558,953,000)        | (6,093,571,071)        | 465,381,929            | 71.30     |
| Finance costs                                           | (198,939,108)          | -         | (198,939,108)          | (37,428,889)           | 161,510,219            | 71.30     |
| Grants paid                                             | (2,829,740)            | -         | (2,829,740)            | -                      | 2,829,740              | 71.29     |
|                                                         | <b>(6,760,721,848)</b> | -         | <b>(6,760,721,848)</b> | <b>(6,130,999,960)</b> | <b>629,721,888</b>     |           |
| <b>Net cash flows from operating activities</b>         | <b>2,059,119,639</b>   | -         | <b>2,059,119,639</b>   | <b>1,535,471,787</b>   | <b>(523,647,852)</b>   |           |
| <b>Cash flows from investing activities</b>             |                        |           |                        |                        |                        |           |
| Purchase of property, plant and equipment               | (1,221,005,654)        | -         | (1,221,005,654)        | (737,866,568)          | 483,139,086            | 71.30     |
| Proceeds from sale of investment property               | -                      | -         | -                      | 338,618                | 338,618                | 71.30     |
| Purchase of other intangible assets                     | -                      | -         | -                      | (45,327,948)           | (45,327,948)           | 71.30     |
| Proceeds from non-current receivables                   | -                      | -         | -                      | 264,268                | 264,268                | 71.30     |
| Interest income                                         | -                      | -         | -                      | 454,546                | 454,546                | 71.30     |
| <b>Net cash flows from investing activities</b>         | <b>(1,221,005,654)</b> | -         | <b>(1,221,005,654)</b> | <b>(782,137,084)</b>   | <b>438,868,570</b>     |           |
| <b>Cash flows from financing activities</b>             |                        |           |                        |                        |                        |           |
| Repayment of borrowings                                 | (131,522,198)          | -         | (131,522,198)          | (107,536,142)          | 23,986,056             | 71.30     |
| Repayment of finance leases                             | -                      | -         | -                      | (39,769,478)           | (39,769,478)           | 71.30     |
| Finance costs                                           | -                      | -         | -                      | (76,995,544)           | (76,995,544)           | 71.30     |
| <b>Net cash flows from financing activities</b>         | <b>(131,522,198)</b>   | -         | <b>(131,522,198)</b>   | <b>(224,301,164)</b>   | <b>(92,778,966)</b>    |           |
| Net increase/(decrease) in cash and cash equivalents    | 706,591,787            | -         | 706,591,787            | 529,033,539            | (177,558,248)          | 71.30     |
| Cash and cash equivalents at the beginning of the year  | 193,228,535            | -         | 193,228,535            | 211,499,931            | 18,271,396             | 71.30     |
| <b>Cash and cash equivalents at the end of the year</b> | <b>899,820,322</b>     | -         | <b>899,820,322</b>     | <b>740,533,470</b>     | <b>(159,286,852)</b>   |           |

Budget variances are discussed in note 71.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

| Figures in Rand | Note(s) | 2022 | 2021 |
|-----------------|---------|------|------|
|-----------------|---------|------|------|

### 1. Presentation of Consolidated Annual Financial Statements

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

These consolidated 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.

In the absence of an issued and effective Standard of GRAP, accounting policies for material transactions, events or conditions were developed in accordance with paragraphs 8, 10 and 11 of GRAP 3 as read with Directive 5.

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 consolidated annual financial statements, are disclosed below.

These accounting policies are consistent with the previous period, except for a change in accounting policy on the impairment of government debt.

#### 1.1 Going concern assumption

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

#### 1.2 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.

#### 1.3 Consolidation

##### Basis for consolidation

Consolidated annual financial statements are the consolidated annual financial statements of the municipality and its municipal entity presented as those of a single entity.

The consolidated annual financial statements incorporate the consolidated annual financial statements of the controlling entity and all controlled entity, including special purpose entities, which are controlled by the controlling entity.

Consolidated annual financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Control exists when the controlling entity has the power to govern the financial and operating policies of another entity so as to obtain benefits from its activities.

The revenue and expenses of a controlled entity are included in the consolidated annual financial statements from the transfer date or acquisition date as defined in the Standards of GRAP on Transfer of functions between entities under common control or Transfer of functions between entities not under common control. The revenue and expenses of the controlled entity are based on the values of the assets and liabilities recognised in the controlling entity's consolidated annual financial statements at the acquisition date.

The consolidated annual financial statements of the controlling entity and its controlled entities used in the preparation of the consolidated annual financial statements are prepared as of the same date.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.3 Consolidation (continued)

When the end of the reporting dates of the controlling entity is different from that of a controlled entity, the controlled entity prepares, for consolidation purposes, additional consolidated annual financial statements as of the same date as the consolidated annual financial statements of the controlling entity unless it is impracticable to do so. When the consolidated annual financial statements of a controlled entity used in the preparation of consolidated annual financial statements are prepared as of a date different from that of the controlling entity, adjustments are made for the effects of significant transactions or events that occur between that date and the date of the controlling entity's consolidated annual financial statements. In any case, the difference between the end of the reporting date of the controlled entity and that of the controlling entity is no more than three months. The length of the reporting periods and any difference between the ends of the reporting dates is the same from period to period.

Adjustments are made when necessary to the consolidated annual financial statements of the controlled entities to bring their accounting policies in line with those of the controlling entity.

All intra-entity transactions, balances, revenues and expenses are eliminated in full on consolidation.

Non-controlling interest in the net assets of the municipality is identified and recognised separately from the controlling entity's interest therein, and are recognised within net assets.

Changes in a controlling entity's ownership interest in a controlled entity that do not result in a loss of control are accounted for as transactions that affect net assets.

A Special purpose entity is consolidated when the substance of the relationship between the municipality and the Special purpose entity indicates that the Special purpose entity is controlled by the municipality.

### 1.4 Significant judgements and sources of estimation uncertainty

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

#### Trade receivables, loans and other receivables

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

Where the impairment for trade receivables, loans and other receivables is calculated on a portfolio basis, these are based on historical loss ratios. These annual loss ratios are applied to the balances in the portfolio. The impairment is measured as the difference between the receivables' carrying amount and the present value of the estimated future cash flows discounted at the effective interest rate, computed at initial recognition. The impairment loss is recognised in surplus or deficit when there is objective evidence that it is impaired.

#### 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 statement of financial performance.

#### 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 fair value of investment property is determined on the basis of a valuation by an independent valuer who holds a recognised and relevant professional qualification and has recent experience in the location and category of the investment property being valued.

The fair value of items of land and buildings is determined from market-based evidence by appraisal. An appraisal of the value of the asset is undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification.

The fair value of heritage assets is the price at which the heritage asset could be exchanged between knowledgeable, willing parties in an arm's length transaction. The fair value of heritage assets is determined from market-based evidence determined by appraisal. An appraisal of the value of the asset is normally undertaken by a member of the valuation profession, who holds a recognised and relevant professional qualification.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

#### 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. The recoverable service amount of non-cash-generating assets have been determined on the higher of value-in-use calculations and fair value less cost to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of tangible assets.

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

#### Provisions

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 23 - Provisions.

#### Taxation

Judgement is required in determining the provision for income taxes due to the complexity of legislation. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The municipality recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

The municipality recognises the net future tax benefit related to deferred income tax assets to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future. Assessing the recoverability of deferred income tax assets requires the municipality to make significant estimates related to expectations of future taxable income. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the municipality to realise the net deferred tax assets recorded at the end of the reporting period could be impacted.

#### Useful lives and residual values

The municipality's management determines the estimated useful lives and related depreciation charges for assets as noted in accounting policies 1.6, 1.7 and 1.8. These estimates are based on industry norm.

Management will increase the depreciation charge prospectively where useful lives are less than previously estimated useful lives. Management will decrease the depreciation charge prospectively where useful lives are more than previously estimated useful lives.

Where changes are made to the estimated residual lives, management also makes these changes prospectively.

#### Employee benefit obligation

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

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

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 24 - Employee benefit obligation.

### 1.5 Investment property

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

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

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.5 Investment property (continued)

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

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

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

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

Cost is the amount of cash or cash equivalents or the fair value of the consideration given to acquire an asset at the time of its acquisition or construction. 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.

#### Fair value

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

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

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.

Although unlikely, 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.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

#### Derecognition

Items of investment property are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use or disposal of the asset.

The gain or loss arising from the derecognition of an item of investment property is included in surplus or deficit when the item is derecognised.

The gain or loss arising from the derecognition of an item of investment property is determined as the difference between the net disposal proceeds and the carrying amount of the asset.

The municipality discloses relevant information relating to assets under construction or development, in the notes to the consolidated annual financial statements (see note 9 - Investment property).

# Mangaung Metropolitan Municipality

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## Accounting Policies

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### 1.6 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 (other than investment property), or for administrative purposes, and are expected to be used during more than one period.

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

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

Property, plant and equipment is initially measured at cost.

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

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

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

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

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

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

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

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

Major inspection costs which are 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

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land, buildings, water meters and zoo animals which are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

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

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to accumulated surplus as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

# Mangaung Metropolitan Municipality

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## Accounting Policies

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

#### Depreciation and impairment

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

Land, except for landfill and quarry sites, is not depreciated as it has an indefinite useful life.

Depreciation of an asset begins when it is available for use, i.e. when it is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Subsequent to initial recognition, property, plant and equipment on the cost model is carried at cost less accumulated depreciation and any accumulated impairment losses. 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 useful lives of items of property, plant and equipment have been assessed as follows:

| Item                           | Depreciation method | Average useful life |
|--------------------------------|---------------------|---------------------|
| Buildings                      | Straight-line       | 30 - 60             |
| Landfill sites                 | Straight-line       | 10 - 55             |
| Firearms                       | Straight-line       | 5 - 40              |
| Environmental facilities       | Straight-line       | 5 - 50              |
| Roads and stormwater           | Straight-line       | 3 - 100             |
| Equipment under finance leases | Straight-line       | 3 - 5               |
| Community / Recreational       | Straight-line       | 10 - 30             |
| Sewerage and mains             | Straight-line       | 10 - 60             |
| Water network                  | Straight-line       | 5 - 100             |
| Security                       | Straight-line       | 10                  |
| Housing                        | Straight-line       | 5 - 30              |
| Other vehicles                 | Straight-line       | 5 - 20              |
| Other assets                   | Straight-line       | 3 - 20              |
| Electricity network            | Straight-line       | 3 - 50              |

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

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. Components of assets that are significant in relation to the whole asset and that have different useful lives are depreciated separately.

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

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

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

#### Derecognition

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

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

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

The municipality separately discloses expenditure to repair and maintain property, plant and equipment in the notes to the financial statements (see note 10 - Property, plant and equipment).

The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 10- Property, plant and equipment)

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.7 Intangible assets

An intangible asset is an identifiable non-monetary asset without physical substance.

An asset is identifiable if it either:

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

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management's best estimate of the set of economic conditions that will exist over the useful life of the asset.

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

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

#### Subsequent measurement

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

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

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

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

Amortisation begins when intangible assets are in the location and condition necessary for it to be capable of operating in the manner intended by management and ceases at the date that the asset is derecognised.

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

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| Item                           | Amortisation method | Average useful life |
|--------------------------------|---------------------|---------------------|
| Computer software and licences | Straight-line       | 1 - 30              |
| Servitudes                     | None                | Indefinite          |

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The municipality discloses relevant information relating to assets under construction or development, in the notes to the financial statements (see note 11 - Intangible assets).

#### Derecognition

Intangible assets are derecognised:

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

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

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.8 Living resources

Zoo animals comprise of animals held at Bloemfontein Zoo, Kwaggafontein and other nature areas.

Zoo animals are accounted for in terms of GRAP 110 as living resources. The majority of animals are received as donations and transfers from other similar institutions for no consideration or from procreation. These assets are recorded at fair value at the time of donation or transfer, and are depreciated accordingly.

Market determined prices or values are not available for certain animals due to lack of market because they are not commodities, as well as restrictions on trade of exotic animals which precludes the determination of a fair value. The fair value of zoo animals is determined based on market prices of zoo animals of similar age, breed and genetic merit.

Zoo animals are also acquired through supply chain process and these newly acquired animals are carried at cost less accumulated depreciation and any impairment losses. The offspring of newly acquired animals shall be recorded at a fair value at the time of birth and will also be depreciated accordingly.

#### Depreciation and impairment

Zoo animals are depreciated on the straight-line basis over their expected useful lives to their estimated residual value.

The useful lives of zoo animals listed below reflect useful lives of the different classes of animals at the various nature areas. Within the different classes of animals are a number of different species whose useful lives differ. Therefore, the useful lives of zoo animals listed below reflect the useful lives of the different species contained within a specific class of animals.

The longevity of zoo animals has been assessed as follows:

|          |               |
|----------|---------------|
| Aves     | 12 - 90 years |
| Mammalia | 9 - 45 years  |
| Reptilia | 4 - 100 years |

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

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

#### Subsequent measurement

Zoo animals are carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When an item of zoo animals is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in a zoo animal's carrying amount, as a result of a revaluation, is credited directly to the revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same zoo animal previously recognised in surplus or deficit.

Any decrease in a zoo animal's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to the revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that zoo animal.

The revaluation surplus in equity related to a specific item of zoo animals is transferred directly to accumulated surplus as the zoo animal is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the zoo animal.

#### Accounting treatment of other costs

Under the recognition principles in paragraph 1.15, the entity does not recognise in the carrying amount of a living resource the day-to-day costs, or the costs to maintain or to hold the living resource. Day-to-day costs are those costs incurred by an entity to manage the qualitative and quantitative changes of the biological transformation. Depending on its reason for holding the living resource, the entity assesses whether the costs incurred are day-to-day operating costs, or whether the incurred costs will enhance the future economic benefits or service potential of the resource.

Living resources comprise resources that are held for research, for example animals and plants used in testing facilities or laboratory animals. The principles in the Standard of GRAP on Intangible Assets (GRAP 31) indicate that during the research phase of an internal project, expenditure incurred as part of the research project should be recognised as an expense, because the entity cannot demonstrate that an asset exists that will generate future economic benefits or service potential. The principles in GRAP 31 are applied to assess whether costs incurred for research activities should be recognised as research or development costs.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### Transfers of living resources

Transfers from living resources shall be made when, and only when, the particular asset no longer meets the definition of a living resource and/or is no longer within the scope of this Standard.

For a transfer from living resources carried at a revalued amount to property, plant and equipment (including bearer plants), inventories or to a biological asset, the living resource's deemed cost for subsequent accounting in accordance with the applicable Standard of GRAP shall be its revalued amount at the date of transfer. The entity shall apply the principles in this Standard up to the date of transfer. The entity treats any difference at that date between the GRAP 110 Issued March 2017 27 Living and Non-living Resources carrying amount of the living resource and its fair value in the same way as a revaluation in accordance with this standard.

If an item of property, plant and equipment (including bearer plants) carried at a revalued amount, or a biological asset carried at fair value less cost to sell, is reclassified as a living resource carried at a revalued amount, the entity applies the applicable Standard of GRAP to that asset up to the date of change. The entity treats any difference at that date between the carrying amount of the asset and its fair value in accordance with the applicable Standard of GRAP relating to that living resource.

For a transfer from inventories or a biological asset to living resources at a revalued amount, any difference between the fair value of the living resource at GRAP 110 Issued March 2017 28 Living and Non-living Resources that date and its previous carrying amount shall be recognised in surplus or deficit.

### Custodian assets

Where the entity acts as a custodian of a living or non-living resource, or group of living or non-living resources, other than land, the entity shall explain the nature of its custodial responsibility, including the legislation or similar means that establish.

### 1.9 Heritage assets

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

#### Recognition

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

#### Initial measurement

Heritage assets are measured at cost.

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

#### Subsequent measurement

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

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

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

#### Impairment

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

Compensation from third parties for items of heritage assets property that were impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### Transfers

Transfers from heritage assets are only made when the particular asset no longer meets the definition of a heritage asset.

Transfers to heritage assets are only made when the asset meets the definition of a heritage asset.

# Mangaung Metropolitan Municipality

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## Accounting Policies

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### 1.9 Heritage assets (continued)

#### Derecognition

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

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

The entity separately discloses expenditure to repair and maintain heritage assets in the notes to the financial statements (refer to note 15).

The entity discloses relevant information relating to assets under construction or development, in the notes to the financial statements (refer to note 12 - Heritage assets).

### 1.10 Financial instruments

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

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

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

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

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

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses.

The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

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

A financial asset is:

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

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

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

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

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

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

# Mangaung Metropolitan Municipality

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## Accounting Policies

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### 1.10 Financial instruments (continued)

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

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

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

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

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

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

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

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

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

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

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

# Mangaung Metropolitan Municipality

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## Accounting Policies

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### 1.10 Financial instruments (continued)

#### Classification

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

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

#### Initial recognition

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

The entity recognises financial assets using trade date accounting.

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

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

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

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

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

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

#### Fair value measurement considerations

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

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

#### Reclassification

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

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

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

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

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

# Mangaung Metropolitan Municipality

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### 1.10 Financial instruments (continued)

#### Gains and losses

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

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

#### Impairment and uncollectibility of financial assets

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

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

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

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

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

- Significant financial difficulty experienced by the borrower/debtor;
- Delays in payments (including interest payments) or failure to pay/defaults;
- For economic or legal reasons, allowing disadvantaged customers who are experiencing financial difficulties to pay as and when they can. The entity would not otherwise have considered this concession. For example, allowing disadvantaged customers to pay their account when they can due to the fact that the water it supplies to the customer is a basic human right;
- It is probable that the borrower/debtor will enter sequestration (bankruptcy) or other financial reorganisation;
- The disappearance of an active market for the financial asset because of financial difficulties
- Observable data, for example historical data, indicating that there is a decrease in the estimated future cash flows that will be received (which can be measured reliably), from a group of financial assets (financial assets with similar credit risk characteristics grouped together) since the initial recognition of those assets. The decrease may not yet be identified for the individual financial assets in the group. These can include:
  - the payment status of borrowers/debtors in the group has deteriorated (e.g. an increased number of delayed payments);
  - or
  - national or local economic conditions that are in line with non-payments in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers/debtors, or adverse changes in market conditions that affect the borrowers/debtors in the group)
- Accounts in arrears for a period longer than the initial estimated repayment period;
- Accounts with arrears of over 90 days showing no repayments in the last financial year;
- Accounts handed over for collection;
- Any negative changes in the ability of debtors and borrowers to repay the amounts due to the entity (e.g. an increased number of late payments);
- A breach in contract, such as a default in interest or capital payments.

Management need not utilize all the indicators given above as guidance but only use the indicators to which management has sufficient information to make the assessment for possible or actual impairment.

#### Financial assets measured at amortised cost:

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

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

#### Financial assets measured at cost:

If there is objective evidence that an impairment loss has been incurred on an investment in a residual interest that is not measured at fair

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.10 Financial instruments (continued)

value because its fair value cannot be measured reliably, the amount of the impairment loss is measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment losses are not reversed.

#### Derecognition

##### Financial assets

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:

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

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

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

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

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

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

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

#### Financial liabilities

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

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

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

#### Presentation

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

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

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.10 Financial instruments (continued)

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

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

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

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

| Class                                           | Category                                   |
|-------------------------------------------------|--------------------------------------------|
| Consumer receivables from exchange transactions | Financial asset measured at amortised cost |
| Other receivables from exchange transactions    | Financial asset measured at amortised cost |
| Cash and cash equivalents                       | Financial asset measured at amortised cost |
| Non-current receivables                         | Financial asset measured at fair value     |
| Non-current receivables                         | Financial asset measured at amortised cost |

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

| Class                               | Category                                       |
|-------------------------------------|------------------------------------------------|
| Payables from exchange transactions | Financial liability measured at amortised cost |
| Finance lease obligation            | Financial liability measured at amortised cost |
| Borrowings                          | Financial liability measured at amortised cost |

### 1.11 Statutory receivables

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.

#### Recognition

The municipality recognises statutory receivables as follows:

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

#### Initial measurement

The municipality initially measures statutory receivables at their transaction amount.

#### Subsequent measurement

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

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

#### Accrued interest

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

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

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.11 Statutory receivables (continued)

#### Other charges

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

#### Impairment losses

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

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

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

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

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

- Significant financial difficulty experienced by the borrower/debtor;
- Delays in payments (including interest payments) or failure to pay/defaults;
- For economic or legal reasons, allowing disadvantaged customers who are experiencing financial difficulties to pay as and when they can. The entity would not otherwise have considered this concession. For example, allowing disadvantaged customers to pay their account when they can due to the fact that the water it supplies to the customer is a basic human right;
- It is probable that the borrower/debtor will enter sequestration (bankruptcy) or other financial reorganisation;
- Observable data, for example historical data, indicating that there is a decrease in the estimated future cash flows that will be received (which can be measured reliably), from a group of statutory receivables (statutory receivables with similar credit risk characteristics grouped together) since the initial recognition of those receivables. The decrease may not yet be identified for the individual financial receivable in the group. These can include:
  - the payment status of borrowers/debtors in the group has deteriorated (e.g. an increased number of delayed payments);
  - or
  - national or local economic conditions that are in line with non-payments in the group (e.g. an increase in the unemployment rate in the geographical area of the borrowers/debtors, or adverse changes in market conditions that affect the borrowers/debtors in the group)
- Accounts in arrears for a period longer than the initial estimated repayment period;
- Accounts with arrears of over 90 days showing no repayments in the last financial year;
- Accounts handed over for collection;
- Any negative changes in the ability of debtors and borrowers to repay the amounts due to the entity (e.g. an increased number of late payments);
- A breach in contract, such as a default in interest or capital payments.

Management need not utilize all the indicators given above as guidance but only use the indicators to which management has sufficient information to make the assessment for possible or actual impairment.

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

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

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

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

# Mangaung Metropolitan Municipality

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## Accounting Policies

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### 1.11 Statutory receivables (continued)

#### Derecognition

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

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

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

### 1.12 Tax

#### Current tax assets and liabilities

Current tax for current and prior periods is, to the extent unpaid, recognised as a liability. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess is recognised as an asset.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the tax authorities, using the tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

#### Deferred tax assets and liabilities

A deferred tax liability is recognised for all taxable temporary differences, except to the extent that the deferred tax liability arises from the initial recognition of an asset or liability in a transaction which at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for all deductible temporary differences to the extent that it is probable that taxable surplus will be available against which the deductible temporary difference can be utilised. A deferred tax asset is not recognised when it arises from the initial recognition of an asset or liability in a transaction at the time of the transaction, affects neither accounting surplus nor taxable profit (tax loss).

A deferred tax asset is recognised for the carry forward of unused tax losses and unused STC credits to the extent that it is probable that future taxable surplus will be available against which the unused tax losses and unused STC credits can be utilised.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

#### Tax expenses

Current and deferred taxes are recognised as income or an expense and included in surplus or deficit for the period, except to the extent that the tax arises from:

- a transaction or event which is recognised, in the same or a different period, to net assets; or
- a business combination.

Current tax and deferred taxes are charged or credited to net assets if the tax relates to items that are credited or charged, in the same or a different period, to net assets.

#### VAT

The entity accounts for VAT on the accrual basis, and is liable for VAT on the payment basis. The entity is liable to account for VAT at the standard rate in terms of section 7(1)(a) of the Value Added Tax Act, (Act 89 of 1991) in respect of the supply of goods or services, except where the supplies are specifically zero-rated in terms of section 11 of the VAT Act, exempted in terms of section 12 of the VAT Act or are scoped out for VAT purposes. The entity accounts for VAT on a monthly basis.

### 1.13 Leases

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

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## Accounting Policies

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### 1.13 Leases (continued)

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

#### Finance leases - lessee

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

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

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

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

#### Operating leases - lessor

Operating lease revenue is recognised as revenue on a straight-line basis over the lease term.

Initial direct costs incurred in negotiating and arranging operating leases are added to the carrying amount of the leased asset and recognised as an expense over the lease term on the same basis as the lease revenue.

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

Income for leases is disclosed under revenue in statement of financial performance.

#### Operating leases - lessee

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

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

### 1.14 Inventories

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

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

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

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

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

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

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

The cost of inventories of items that are interchangeable and goods or services produced and segregated for specific projects is assigned using specific identification of the individual costs.

The cost of inventories is assigned using the first-in, first-out (FIFO) formula. The same cost formula is used for all inventories having a similar nature and use to the municipality.

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.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.15 Cash and cash equivalents

Cash comprises cash on hand and demand deposits.

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

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

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

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

### 1.16 Impairment of cash-generating assets

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

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

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.

Depreciation and amortisation are the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Useful life is either:

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

All assets of the entity are accounted for as non-cash generating assets.

### 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.

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Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

#### Basis for estimates of future cash flows

In measuring value in use, the municipality:

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

#### Composition of estimates of future cash flows

Estimates of future cash flows include:

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

Estimates of future cash flows exclude:

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

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

#### Discount rate

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money, represented by the current risk-free 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.

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

Irrespective of whether there is any indication of impairment, the entity 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.

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.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

#### Cash-generating units

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

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

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

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

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

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

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

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

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

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

#### 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.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

#### Redesignation

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

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

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

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

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

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

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

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

Depreciation and amortisation are the systematic allocation of the depreciable amount of an asset over its useful life.

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

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

Useful life is either:

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

All assets of the entity are accounted for as non-cash generating assets.

#### Identification

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

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

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

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

#### Value in use

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

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

#### 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.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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

#### Reversal of an impairment loss

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

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

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

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

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

#### Redesignation

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

### 1.18 Employee benefits

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

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

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

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

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

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.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.18 Employee benefits (continued)

#### Short-term employee benefits

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

Short-term employee benefits include items such as:

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

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

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

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

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

#### Post-employment benefits

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

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

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.18 Employee benefits (continued)

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

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

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

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 consolidated annual financial statements do not differ materially from the amounts that would be determined at the reporting date.

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

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

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.18 Employee benefits (continued)

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-measures 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.

### 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.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.18 Employee benefits (continued)

#### Other long-term employee benefits

The entity provides other long-term employee benefits to qualifying employees in the form of long service award.

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

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

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

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

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

The entity uses the Projected Unit Credit Method to determine the present value of its long service employee benefit and the related current service cost and, where applicable, past service cost. The Projected Unit Credit 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.

### 1.19 Provisions and contingencies

Provisions are recognised when:

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

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

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

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

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

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating surplus.

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

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.19 Provisions and contingencies (continued)

A constructive obligation to restructure arises only when an entity:

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

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

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

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer if there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 59 - Contingencies.

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

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

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, a municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.19 Provisions and contingencies (continued)

#### Decommissioning, restoration and similar liability

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

If the related asset is measured using the cost model:

- changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- the amount deducted from the cost of the asset does not exceed its carrying amount. If a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit.
- if the adjustment results in an addition to the cost of an asset, the entity considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If there is such an indication, the entity tests the asset for impairment by estimating its recoverable amount or recoverable service amount, and account for any impairment loss, in accordance with the accounting policy on impairment of assets as described in accounting policy 1.16 and 1.17.

If the related asset is measured using the revaluation model:

- changes in the liability alter the revaluation surplus or deficit previously recognised on that asset, so that:
  - a decrease in the liability is credited directly to revaluation surplus in net assets, except that it is recognised in surplus or deficit to the extent that it reverses a revaluation deficit on the asset that was previously recognised in surplus or deficit; and
  - an increase in the liability is recognised in surplus or deficit, except that it is debited directly to revaluation surplus in net assets to the extent of any credit balance existing in the revaluation surplus in respect of that asset;
- in the event that a decrease in the liability exceeds the carrying amount that would have been recognised had the asset been carried under the cost model, the excess is recognised immediately in surplus or deficit;
- a change in the liability is an indication that the asset may have to be revalued in order to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the reporting date. Any such revaluation is taken into account in determining the amounts to be taken to surplus or deficit and net assets. If a revaluation is necessary, all assets of that class is revalued; and
- the Standard of GRAP on Presentation of Financial Statements requires disclosure on the face of the statement of changes in net assets of each item of revenue or expense that is recognised directly in net assets. In complying with this requirement, the change in the revaluation surplus arising from a change in the liability is separately identified and disclosed as such.

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

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

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

### 1.20 Commitments

Where the entity has a contractual commitment in respect of the acquisition of property, plant and equipment, these are disclosed in Note 58 - Commitments.

The commitments as disclosed are the contractual amount less any payments made in respect of the contract.

### 1.21 Revenue from exchange transactions

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

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

Revenue from exchange transactions consists primarily of services charges, rentals, interest received and other services rendered.

When considering the probability of the future economic benefits that will flow to the entity, consideration is given to the requirements as outlined in IGRAP 1.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.21 Revenue from exchange transactions (continued)

#### Measurement

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

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.

#### Sale of goods

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

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

#### Rendering of services

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

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

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

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

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

Rendering of services consist out of solid waste, sanitation, sewerage, electricity and water services.

#### Service charges

Service charges relating to distribution of electricity 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 on a monthly basis 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. In respect of estimates of consumption between the last reading date and the reporting date, an accrual is raised based on the average monthly consumption. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters are read. These adjustments are recognised as revenue in the invoicing period. Estimates of consumption between meter readings are based on historical information.

#### Pre-paid electricity

Pre-paid electricity revenue is recognised at the point of sale. Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates. Pre-paid electricity sales are reconciled on a monthly basis and the sum of the monthly sales provides the total sales for the year. The financial year is divided in two seasons based on the application of tariffs with the seasons being summer (1 September – 31 May) and winter (1 June to 31 August).

The deferred portion of revenue is accounted for by an adjustment for units not consumed at year end. This adjustment is based on the average consumption history, multiplied by the weighted average cost of units sold in June. Average consumption in units is determined per active prepaid meter using a trend analysis of historical consumer purchase data per meter for the previous financial years' months of May, June and July.

The deferred portion of revenue is the amount by which the actual prepaid electricity sold for the month of June exceeds the average consumption calculated.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.21 Revenue from exchange transactions (continued)

#### Interest, royalties and dividends

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

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

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

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

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

#### Rental income

Leases revenue from operating leases shall be recognised as revenue on a straight-line basis over the lease term in accordance with the accounting policy on Leases.

Revenue arising from the use by others of entity assets yielding rental income is recognised when:

- a) it is probable that the economic benefits or service potential associated with the transaction will flow to the entity; and
- b) the amount of the revenue can be measured reliably.

### 1.22 Revenue from non-exchange transactions

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

Revenue from non-exchange transactions consists primarily of grants from National - and Provincial Government, Property rates and Fines revenue.

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

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

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

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

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

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

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

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

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

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

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

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

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.22 Revenue from non-exchange transactions (continued)

#### Recognition

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

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

When considering the probability of the future economic benefits that will flow to the entity, consideration is given to the requirements as outlined in IGRAP 1.

#### Measurement

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

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

#### Taxes

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

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

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

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

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

Taxation revenue are not grossed up for the amount of tax expenditures.

#### Transfers

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

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

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

#### Debt forgiveness and assumption of liabilities

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

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

#### Fines

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

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

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

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.22 Revenue from non-exchange transactions (continued)

#### Bequests

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

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

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

#### Services in-kind

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

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

#### Concessionary loans received

A concessionary loan is a loan granted to or received by a property, plant and equipment on terms that are not market related.

The portion of the loan that is repayable, along with any interest payments, is an exchange transaction and is accounted for in accordance with the Standard of GRAP on Financial Instruments. The off-market portion of the loan is a non-exchange transaction. The off-market portion of the loan that is recognised as non-exchange revenue is calculated as the difference between the proceeds received from the loan, and the present value of the contractual cash flows of the loan, discounted using a market related rate of interest.

The recognition of revenue is determined by the nature of any conditions that exist in the loan agreement that may give rise to a liability. Where a liability exists, the Municipality recognises revenue as and when it satisfies the conditions of the loan agreement.

#### Conditional grants and receipts

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

### 1.23 Investment income

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

### 1.24 Borrowing costs

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

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

### 1.25 Comparative figures

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

### 1.26 Unauthorised expenditure

Unauthorised expenditure is any expenditure incurred by a municipality otherwise than in accordance with the approved budget as well as expenditure exceeding the limits of the amounts appropriated for in the different votes in the approved budget.

Depending on circumstances, identified unauthorised expenditure will be authorised by council in an adjustment budget, certified by municipal council as irrecoverable and written off by council or recovered from a liable official or political office bearer. In cases where unauthorised expenditure is recoverable from an official or political office bearer, resulting from necessary investigations, revenue and receivables are recognised. Unauthorised expenditure is disclosed in the notes to the financial statements.

### 1.27 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.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.27 Fruitless and wasteful expenditure (continued)

Fruitless and wasteful expenditure which was incurred and identified during the financial year and also condoned by council in terms of the MFMA, is only disclosed in the notes to the financial statements. However, fruitless and wasteful expenditure which was incurred and identified during the financial year but failed to be condoned by council is initially recognised as expenditure based on its nature and after further investigations classified to revenue and receivables. Where it is not possible to recover the revenue recognised from fruitless and wasteful, the receivable is written-off following proper write-off processes in terms of the MFMA.

Detailed disclosures are made in note 65 to the annual financial statements as required by the Municipal Finance Management Act, (Act No. 56 of 2003).

### 1.28 Irregular expenditure

Irregular expenditure is expenditure incurred by a municipality in contravention of, or that is not in accordance with, a requirement of the Municipal Finance Management Act, the Municipal Systems Act, or the Public Office-Bearers Act, and which has not been condoned in terms of the MFMA.

Irregular expenditure which was incurred and identified during the financial year is disclosed in the financial statements. It will be accounted for as expenditure in the statement of financial performance and disclosed separately in the notes to the financial statements.

National Treasury circular 68 which was issued in terms of sections 32 of the Municipal Finance Management Act, Act 56 of 2003 on 10 May 2013 requires the following:

Irregular expenditure that was incurred and identified during the current financial year and which was written off 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 approval for write off 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 written off in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount written off.

Irregular expenditure that was incurred and identified during the current financial year and which was not written off 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 written off 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.

Detailed disclosures are made in note 66 to the annual financial statements as required by the Municipal Finance Management Act, (Act No. 56 of 2003).

### 1.29 Internal reserves

#### Self-insurance reserve

The municipality has a Self-Insurance Reserve to set aside amounts to offset potential losses or claims that cannot be insured externally. The balance of the Self-Insurance Reserve is determined based on the insurance risk carried by the municipality, which is calculated by the entity's external insurance broker and is reinstated or increased by a transfer from the accumulated surplus or deficit.

Claims are settled by transferring a corresponding amount from the self-insurance reserve to the accumulated surplus.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.29 Internal reserves (continued)

#### Compensation for occupational injuries and diseases (COID) reserve

The Compensation for Occupational Injuries and Diseases Act (Act 130 of 1993) is to provide for payment of medical treatment and compensation for disablement caused by occupational injuries or diseases sustained or contracted by employees in the course of their employment, or for death resulting from such injuries or diseases. The contribution to the COID fund is determined by the Compensation Commissioner. The municipality is an exempt employer in terms of Section 84 (1) (a)(ii) & (2) and as such does not pay any assessments to the COID Commissioner. In terms of the exempt status the municipality is mandated to establish its own fund and administers this fund in terms of the COID Act.

Amounts are transferred to the COID reserve from the accumulated surplus or deficit based on the amounts as approved in the annual budget and determined by the Compensation Commissioner as well as additional amounts deemed necessary to ensure that the balance of the reserve is adequate to offset potential claims.

Claims are paid as determined by the Compensation Commissioner. Claims are settled by transferring a corresponding amount from the COID reserve to the accumulated surplus or deficit.

### 1.30 Revaluation reserve

The surplus arising from the revaluation of land, buildings, water meters and zoo animals 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.

Any impairment loss of a revalued asset shall be treated as a revaluation decrease. To the extent that the impairment loss exceeds the revaluation surplus for the same asset, the impairment loss is recognised in the accumulated surplus/(deficit).

### 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.

Segmental information on property, plant and equipment, as well as income and expenditure are set out in Note 73 - Segment reporting, based on the International Government Financial Statistics classifications and the budget formats prescribed by National Treasury. The entity operates solely in its area of jurisdiction as determined by the Demarcation Board.

Segment information is prepared in conformity with the accounting policies applied for preparing and presenting the annual 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 the municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on an accrual basis and presented by nature classification. The approved budget and the annual financial statements are not prepared on the same basis.

The annual budget figures included in the annual financial statements are for the entity and do not include budget information relating to subsidiaries. The separate budget for the entity has been recompiled for the presentation in the annual financial statements. The recompilation does not constitute changes or revisions of the consolidated budget as approved by the Council.

The Statement of comparative and actual information has been included in the annual financial statements as the recommended disclosure when the annual financial statements and the budget are not on the same basis of accounting as determined by National Treasury.

Explanatory comments to material differences are provided in note 71 - Budget differences to the annual financial statements.

### 1.33 Related parties

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

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.33 Related parties (continued)

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

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

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

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

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

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

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

Where the municipality is exempt from the disclosures in accordance with the above, the municipality discloses narrative information about the nature of the transactions and the related outstanding balances, to enable users of the entity's financial statements to understand the effect of related party transactions on its consolidated 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 Service concession arrangements: Entity as grantor

#### Identification

Service concession arrangement is a contractual arrangement between a grantor and an operator in which an operator uses the services concession asset to provide a mandated function on behalf of a grantor for a specified period, where the operator is compensated for its services over the period of service concession arrangement.

A grantor is the entity that grants the right to use the service concession asset to the operator.

A mandated function involves the delivery of a public service by an operator on behalf of a grantor that falls within the grantor's mandate.

An operator is the entity that uses the service concession asset to provide a mandated function subject to the grantor's control of the asset.

A service concession asset is an asset used to provide a mandated function in a service concession arrangement that:

- is provided by the operator which:
  - the operator constructs, develops, or acquires from a third party; or
  - is an existing asset of the operator; or
- is provided by the grantor which:
  - is an existing asset of the grantor; or
  - is an upgrade to an existing asset of the grantor.

#### Recognition of asset and liability

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.35 Service concession arrangements: Entity as grantor (continued)

The entity recognises an asset provided by the operator and an upgrade to an existing asset of the entity, as a service concession asset if the entity controls or regulates what services the operator must provide with the asset, to whom it must provide them, and at what price, and if the entity controls (through ownership, beneficial entitlement or otherwise) any significant residual interest in the asset at the end of the term of the arrangement. This applies to an asset used in a service concession arrangement for its entire economic life (a "whole-of-life" asset).

After initial recognition or reclassification, service concession assets are clearly identified from other assets within the same asset category, and are clearly identified from owned and/or leased assets.

Where the entity recognises a service concession asset, and the asset is not an existing asset of the entity (grantor), the entity (grantor) also recognises a liability.

The entity does not recognise a liability when an existing asset of the entity is reclassified as a service concession asset, except in circumstances where additional consideration is provided by the operator.

#### Measurement of asset and liability

The entity initially measures the service concession asset as follows:

- Where the asset is not an existing asset of the entity, the asset is measured at its fair value;
- Where the asset is an existing asset of the entity and it meets the recognition criteria of a service concession asset, the asset is reclassified as a service concession asset, and the asset is accounted for in accordance with the policy on Investment property, Property, plant and equipment, Intangible assets, or Heritage assets, as appropriate.

The entity initially measures the liability at the same amount as the service concession asset, adjusted by the amount of any other consideration from the entity to the operator, or from the operator to the entity.

#### Financial liability model

Where the entity has an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, the entity accounts for the liability as a financial liability.

The entity allocates the payments to the operator and accounts for them according to their substance as a reduction in the liability recognised, a finance charge, and charges for services provided by the operator.

The finance charge and charges for services provided by the operator in a service concession arrangement are accounted for as expenses.

Where the asset and service components of a service concession arrangement are separately identifiable, the service components of payments from the entity to the operator are allocated by reference to the relative fair values of the service concession asset and the services.

Where the asset and service components are not separately identifiable, the service component of payments from the entity to the operator is determined using estimation techniques.

#### Grant of a right to the operator model

Where the entity does not have an unconditional obligation to pay cash or another financial asset to the operator for the construction, development, acquisition, or upgrade of a service concession asset, and grants the operator the right to earn revenue from third-party users or another revenue-generating asset, the entity accounts for the liability as the unearned portion of the revenue arising from the exchange of assets between the entity and the operator.

The entity recognises revenue and reduces the liability according to the substance of the service concession arrangement.

#### Dividing the arrangement

If the entity pays for the construction, development, acquisition, or upgrade of a service concession asset partly by incurring a financial liability and partly by the grant of a right to the operator, it accounts separately for each part of the total liability.

#### Other liabilities, contingent liabilities and contingent assets

The entity accounts for other liabilities, contingent liabilities, and contingent assets arising from a service concession arrangement in accordance with the policy on Provisions, Contingent liabilities and contingent assets and Financial instruments.

#### Other revenues

The entity accounts for revenues from a service concession arrangement, other than those relating to the grant of a right to the operator model, in accordance with the Standard of GRAP on Revenue from exchange transactions.

#### Recognition of the performance obligation and the right to receive a significant interest in a service concession asset

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# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Accounting Policies

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### 1.35 Service concession arrangements: Entity as grantor (continued)

If the entity controls a significant residual interest in a service concession asset at the end of the service concession arrangement through ownership, beneficial entitlement or otherwise, and the arrangement does not constitute a finance or an operating lease, the entity recognises its right to receive the residual interest (i.e. a receivable) in the service concession asset at the commencement of the arrangement.

The right to receive a residual interest in the service concession asset to be received at the end of the arrangement, is an exchange consideration. This is because the entity will receive an asset in exchange for granting the operator access to the asset while providing a mandated function on its behalf in accordance with the substance of the arrangement.

In terms of the policy on Revenue from exchange transactions, the exchange consideration is recognised and measured at fair value. The value of the receivable (the right to the residual interest in the asset), receivable at the end of the service concession arrangement, reflects the value of the service concession asset as if it were already in the age and in the condition expected at the end of the service concession arrangement.

When the entity recognises the right to receive a residual interest in the service concession asset, it also recognises its performance obligation for granting the operator access to the service concession asset in accordance with the substance of the arrangement. The value of the performance obligation is the same as the receivable interest recognised at the commencement of the service concession arrangement.

The performance obligation is reduced and revenue is recognised based on the substance of the arrangement.

Where service concession arrangements include provisions to adjust the arrangement for changes, the effect of such changes is deemed to have taken place at the inception of the service concession arrangements.

### 1.36 Advance receipts

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

In a non-exchange transaction, an entity either receives value from another entity without directly giving approximately equal value in exchange, or gives value to another entity without directly receiving approximately equal value in exchange.

All receipts received in advance are classified as non-exchange transactions as no approximate equal value is exchanged between the parties.

Refer to note 17 Payable from non-exchange transactions where these receipts in advance are disclosed.

# Mangaung Metropolitan Municipality

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## Notes to the Consolidated Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|-----------------|------|------|
|-----------------|------|------|

### 2. New standards and interpretations

#### 2.1 Standards and interpretations effective and adopted in the current year

In the current year, the municipality has adopted the following standards and interpretations that are effective for the current financial year and that are relevant to its operations:

##### **GRAP 110 (as amended 2016): Living and Non-living Resources**

The objective of this Standard is to prescribe the:

- recognition, measurement, presentation and disclosure requirements for living resources; and
- disclosure requirements for non-living resources.

It furthermore covers definitions, recognition, measurement, depreciation, impairment, compensation for impairment, transfers, derecognition, disclosure, transitional provisions and effective date.

The subsequent amendments to the Standard of GRAP on Living and Non-living Resources resulted from editorial changes to the original text and inconsistencies in measurement requirements in GRAP 23 and other asset-related Standards of GRAP in relation to the treatment of transaction costs. Other changes resulted from changes made to IPSAS 17 on Property, Plant and Equipment (IPSAS 17) as a result of the IPSASB's Improvements to IPSASs 2014 issued in January 2015 and Improvements to IPSASs 2015 issued in March 2016.

The most significant changes to the Standard are:

- General improvements: To clarify the treatment of transaction costs and other costs incurred on assets acquired in non-exchange transactions to be in line with the principle in GRAP 23; and To clarify the measurement principle when assets may be acquired in exchange for a non-monetary asset or assets, or a combination of monetary and non-monetary assets;
- IPSASB amendments: To clarify the revaluation methodology of the carrying amount and accumulated depreciation when a living resource is revalued; To clarify acceptable methods of depreciating assets; and To define a bearer plant and include bearer plants within the scope of GRAP 17 or GRAP 110, while the produce growing on bearer plants will remain within the scope of GRAP 27.

The effective date of the standard is for years beginning on or after 01 April 2021.

The municipality has adopted the standard for the first time in the 2021/2022 consolidated annual financial statements.

The impact of the standard is set out in the note for Prior Period Errors and Changes in Accounting Policy.

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

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2022 or later periods:

##### **Guideline: Guideline on Accounting for Landfill Sites**

The objective of this guideline: The Constitution of South Africa, 1996 (Act No. 108 of 1996) (the constitution), gives local government the executive authority over the functions of cleaning, refuse removal, refuse dumps and solid waste disposal. Even though waste disposal activities are mainly undertaken by municipalities, other public sector entities may also be involved in these activities from time to time. Concerns were raised about the inconsistent accounting practices for landfill sites and the related rehabilitation provision where entities undertake waste disposal activities. The objective of the Guideline is therefore to provide guidance to entities that manage and operate landfill sites. The guidance will improve comparability and provide the necessary information to the users of the financial statements to hold entities accountable and for decision making. The principles from the relevant Standards of GRAP are applied in accounting for the landfill site and the related rehabilitation provision. Where appropriate, the Guideline also illustrates the accounting for the land in a landfill, the landfill site asset and the related rehabilitation provision.

It covers: Overview of the legislative requirements that govern landfill sites, Accounting for land, Accounting for the landfill site asset, Accounting for the provision for rehabilitation, Closure, End-use and monitoring, Other considerations, and Annexures with Terminology & References to pronouncements used in the Guideline.

The effective date of the guideline is for years beginning on or after 01 April 2023.

The municipality expects to adopt the guideline for the first time in the 2023/2024 consolidated annual financial statements.

The impact of this standard is currently being assessed.

## Notes to the Consolidated Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### GRAP 25 (as revised): Employee Benefits

##### Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS® 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise;
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14®) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

##### Key amendments to GRAP 25

The Board agreed to align GRAP 25 with IPSAS 39, but that local issues and the local environment need to be considered. As a result of this decision, there are areas where GRAP 25 departs from the requirements of IPSAS 39. The Board's decisions to depart are explained in the basis for conclusions.

The amendments to GRAP 25 are extensive and mostly affect the accounting for defined benefit plans. A new renumbered Standard of GRAP (e.g. GRAP 39) will not be issued, but rather a new version of the current GRAP 25.

The effective date of these revisions has not yet been set.

The municipality expects to adopt the revisions once an effective date has been set by the Minister of Finance.

The impact of this revisions is currently being assessed.

#### iGRAP 7 (as revised): Limit on defined benefit asset, minimum funding requirements and their interaction

##### Background

The Board issued the Standard of GRAP on Employee Benefits (GRAP 25) in November 2009. GRAP 25 was based on the International Public Sector Accounting Standard on Employee Benefits (IPSAS 25) effective at that time. However, GRAP 25 was modified in some respects where the Board decided the requirements of the International Accounting Standard on Employee Benefits (IAS® 19) were more appropriate. Specifically, the Board:

- Eliminated the corridor method and required recognition of actuarial gains and losses in full in the year that they arise;
- Required the recognition of past service costs in the year that a plan is amended, rather than on the basis of whether they are vested or unvested.

Since 2009, the International Accounting Standards Board® has made several changes to IAS 19, including changes to the recognition of certain benefits, and where these changes are recognised. The IPSASB made similar changes to its standard and as a result of the extent of changes, issued IPSAS 39 on Employee Benefits to replace IPSAS 25 in 2016.

When the Board consulted locally on the proposed amendments to IPSAS 25 in 2016, stakeholders welcomed the amendments to align IPSAS 25 to IAS 19 and supported the changes that resulted in IPSAS 39.

In developing GRAP 25, the Board agreed to include the guidance from the IFRS Interpretation on IAS 19 – The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IFRIC 14®) partly in GRAP 25 and partly in the Interpretation of the Standards of GRAP on The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (IGRAP 7).

The effective date of these revisions has not yet been set.

The municipality expects to adopt the revisions once an effective date has been set by the Minister of Finance.

## Notes to the Consolidated Annual Financial Statements

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### 2. New standards and interpretations (continued)

The impact of this revisions is currently being assessed.

#### GRAP 104 (as revised): Financial Instruments

Following the global financial crisis, a number of concerns were raised about the accounting for financial instruments. This included that (a) information on credit losses and defaults on financial assets was received too late to enable proper decision-making, (b) using fair value in certain instances was inappropriate, and (c) some of the existing accounting requirements were seen as too rules based. As a result, the International Accounting Standards Board® amended its existing Standards to deal with these issues. The IASB issued IFRS® Standard on Financial Instruments (IFRS 9) in 2009 to address many of the concerns raised. Revisions were also made to IAS® on Financial Instruments: Presentation and the IFRS Standard® on Financial Instruments: Disclosures. The IPSASB issued revised International Public Sector Accounting Standards in June 2018 so as to align them with the equivalent IFRS Standards.

The revisions better align the Standards of GRAP with recent international developments. The amendments result in better information available to make decisions about financial assets and their recoverability, and more transparent information on financial liabilities.

The most significant changes to the Standard affect:

- Financial guarantee contracts issued;
- Loan commitments issued;
- Classification of financial assets;
- Amortised cost of financial assets;
- Impairment of financial assets; and
- Disclosures.

The effective date of these revisions is 01 April 2025.

The municipality expects to adopt the revisions for the first time in the 2025/2026 annual financial statements.

The impact of this standard is currently being assessed.

#### iGRAP 21: The Effect of Past Decisions on Materiality

##### Background

The Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors (GRAP 3) applies to the selection of accounting policies. Entities apply the accounting policies set out in the Standards of GRAP, except when the effect of applying them is immaterial. This means that entities could apply alternative accounting treatments to immaterial items, transactions or events (hereafter called "items").

The Board received questions from entities asking whether past decisions to not apply the Standards of GRAP to immaterial items effect future reporting periods. Entities observed that when they applied alternative accounting treatments to items in previous reporting periods, they kept historical records on an ongoing basis of the affected items. This was done so that they could assess whether applying these alternative treatments meant that the financial statements became materially "misstated" over time. If the effect was considered material, retrospective adjustments were often made.

This Interpretation explains the nature of past materiality decisions and their potential effect on current and subsequent reporting periods.

iGRAP 21 addresses the following two issues:

- Do past decisions about materiality affect subsequent reporting periods?
- Is applying an alternative accounting treatment a departure from the Standards of GRAP or an error?

The effective date of these interpretation is 01 April 2023.

The municipality expects to adopt the interpretation for the first time in the 2023/2024 annual financial statements.

It is unlikely that the interpretation will have a material impact on the municipality's consolidated annual financial statements.

#### GRAP 2020: Improvements to the standards of GRAP 2020

Every three years, the Accounting Standards Board undertakes periodic revisions of the Standards of GRAP, in line with best practice internationally among standard setters.

Improvements to Standards of GRAP are aimed at aligning the Standards of GRAP with international best practice, to maintain the quality and to improve the relevance of the Standards of GRAP.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

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### 2. New standards and interpretations (continued)

Amendments include:

#### GRAP 5 – Borrowing Costs

- For general borrowings, borrowing costs eligible for capitalisation determined by applying a capitalisation rate:
  - Clarify that borrowings made specifically for purposes of obtaining a qualifying asset are excluded until substantially all the activities necessary to prepare asset for intended use or sale are complete.

#### GRAP 13 – Leases

- Operating leases & Sale and leaseback transactions are currently assessed for impairment in accordance with GRAP 26.
- Clarify that these arrangements may also be assessed in accordance with GRAP 21.

#### GRAP 16 – Investment Property

- Clarify that GRAP 21 may be applied to assess investment property for impairment.
- Include heading “Classification of property as investment property” (par 6 and 7) & delete existing headings.
- Investment property under construction (within scope of GRAP 16):
  - Added heading “Guidance on initially measuring self-constructed investment property at fair value”.
  - Added clarification that investment property is measured at fair value at earliest of:
    - o completion of construction or development; or
    - o when fair value becomes reliably measurable.
- Clarify requirements on transfers to and from Investment property:
  - Change in use involves an assessment on whether:
    - o property meets, or ceases to meet definition of investment property; and
    - o evidence exists that a change in use has occurred.
  - List of examples of a change in use is regarded as non-exhaustive.

#### GRAP 17 – Property, Plant and Equipment

- Delete example indicating that quarries and land used for landfill may be depreciated in certain instances:
  - Land has an unlimited useful life and cannot be consumed through its use.

#### GRAP 20 – Related Party Disclosures

- Clarify that entity, or any member of a group of which it is part, providing management services to reporting entity (or controlling entity of reporting entity) is a related party:
  - Disclose amounts incurred by the entity for the provision of management services that are provided by a separate management entity;
  - If an entity obtains management services from another entity (“the management entity”) the entity is not required to apply the requirements in paragraph .35 to the remuneration paid or payable by the management entity to the management entity’s employees or those charged with governance of the entity in accordance with legislation, in instances where they are required to perform such functions;
  - Management services are services where employees of management entity perform functions as “management” as defined.

#### GRAP 24 – Presentation of Budget Information in Financial Statements

- Terminology amended:
  - Primary financial statements amended to “financial statements” or “face of the financial statements”.

#### GRAP 31 – Intangible Assets

- Extend requirement to consider whether reassessing useful life of intangible asset as finite rather as indefinite indicates that asset may be impaired:
  - Both under cost model or revaluation model.

#### GRAP 32 – Service Concession Arrangements: Grantor

- Clarify disclosure requirement for service concession assets:
  - Disclose carrying amount of each material service concession asset recognised at the reporting date.

#### GRAP 37 – Joint Arrangements

- Application guidance clarified:
  - When party obtains joint control in a joint operation where activity of joint operation constitutes a function (GRAP 105 or GRAP 106), previous held interest in joint operation is not remeasured.

## Notes to the Consolidated Annual Financial Statements

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### 2. New standards and interpretations (continued)

#### GRAP 106 – Transfer of Functions Between Entities Not Under Common Control

- When party obtains control of joint operation and entity had rights to assets, or obligations to liabilities before acquisition date, it comprises an acquisition received in stages:
  - Apply the requirements for an acquisition achieved in stages, including remeasuring previously held interest in joint operation.

#### Directive 7 – The Application of Deemed Cost

- Clarify that bearer plants within the scope of the Directive.

The effective date of these improvements is 01 April 2023.

The municipality expects to adopt the improvements for the first time in the 2023/2024 consolidated annual financial statements.

The impact of this improvements is currently being assessed.

#### GRAP 1 (amended): Presentation of Financial Statements

Amendments to this Standard of GRAP, are primarily drawn from the IASB's Amendments to IAS 1.

Summary of amendments are:

#### Materiality and aggregation

The amendments clarify that:

- information should not be obscured by aggregating or by providing immaterial information;
- materiality considerations apply to all parts of the financial statements; and
- even when a Standard of GRAP requires a specific disclosure, materiality considerations apply.

#### Statement of financial position and statement of financial performance

The amendments clarify that the list of line items to be presented in these statements can be disaggregated and aggregated as relevant and additional guidance on subtotals in these statements.

#### Notes structure

The amendments add examples of possible ways of ordering the notes to clarify that understandability and comparability should be considered when determining the order of the notes and to demonstrate that the notes need not be presented in the order listed in GRAP 1.

#### Disclosure of accounting policies

Remove guidance and examples with regards to the identification of significant accounting policies that were perceived as being potentially unhelpful.

The municipality applies judgement based on past experience and current facts and circumstances.

The effective date of this amendment is for years beginning on or after 01 April 2023.

The municipality expects to adopt the amendment for the first time in the 2023/2024 consolidated annual financial statements.

The impact of this amendment is currently being assessed.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
|-----------------|------|------|
|-----------------|------|------|

### 3. Inventories

|                                                  |                    |                    |
|--------------------------------------------------|--------------------|--------------------|
| Consumable stores                                | 3,249,592          | 4,634,857          |
| Fuel (diesel, petrol)                            | 1,299,734          | 1,381,083          |
| Maintenance materials                            | 1,724,532          | 1,766,326          |
| Unsold properties held for resale                | 366,245,009        | 350,702,051        |
| Water for distribution (in pipes and reservoirs) | 4,507,279          | 4,003,694          |
| Work in progress (inventory)                     | 171,707,423        | 170,979,106        |
| Raw materials, components                        | 125,051,279        | 96,586,572         |
|                                                  | <b>673,784,848</b> | <b>630,053,689</b> |

### Raw materials, components

|                   |                    |                   |
|-------------------|--------------------|-------------------|
| Inventory balance | 126,083,117        | 97,964,030        |
| NRV adjustment    | 1,031,838          | 1,377,458         |
|                   | <b>125,051,279</b> | <b>96,586,572</b> |

An assessment of the net realisable value against cost was performed and inventory was written down.

Inventories that were recognised as stores issues during the year amounted to R62,323,191 (2021: R64,340,213), of which a portion was capitalised.

The municipality does not extract any non-regenerative resources for its use or for the use of others. All inventories, including water inventory, are acquired from third parties.

### Inventory losses and expenses

|                                                      |            |            |
|------------------------------------------------------|------------|------------|
| Inventories written off                              | 6,181,103  | 6,198,709  |
| Inventories recognised as an expense during the year | 86,547,347 | 85,850,162 |

Prior period figures were restated due to reclassification done and errors identified in the current year, refer to note 70.

### Inventory pledged as security

No inventory was pledged as security for any financial liability.

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

|                                           |                |                |
|-------------------------------------------|----------------|----------------|
| Traffic fines receivable                  | 283,789,931    | 280,936,095    |
| Impairment - Traffic fines receivable     | (283,025,719)  | (279,985,828)  |
| Government grants receivable              | 114,350,195    | 114,350,195    |
| Impairment - Government grants receivable | (114,350,195)  | (114,350,195)  |
|                                           | <b>764,212</b> | <b>950,267</b> |

### Statutory receivables included in receivables from non-exchange transactions above are as follows:

|                              |                |                |
|------------------------------|----------------|----------------|
| Traffic fines receivable     | 764,212        | 950,267        |
| Government grants receivable | -              | -              |
|                              | <b>764,212</b> | <b>950,267</b> |

|                                                               |                |                |
|---------------------------------------------------------------|----------------|----------------|
| <b>Total other receivables from non-exchange transactions</b> | <b>764,212</b> | <b>950,267</b> |
|---------------------------------------------------------------|----------------|----------------|

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

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### 4. Other receivables from non-exchange transactions (continued)

Other receivables from non-exchange transactions above relates to:

Traffic fines arises from fines revenue as disclosed in Note 34 in accordance with Section 341 of the Criminal procedure Act of 1977 and National Traffic Act.

Grants receivables relates to VAT on grants in prior years claimed from National Treasury which has not yet been finalised.

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

The credit quality of other receivables from non-exchange transactions that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

None of the financial assets that are fully performing have been renegotiated in the last year.

The entity does not hold any collateral as security.

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

None of the other receivables from non-exchange transactions were pledged as security for any financial liability.

#### Other receivables from non-exchange transactions impaired:

As at 30 June 2022, other receivables from non-exchange transactions of R 397,375,914 (2021: R 394,336,023) were impaired and provided for.

The amount of the provision was R 397,375,914 as at 30 June 2022 (2021: R394,336,023).

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
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### 4. Other receivables from non-exchange transactions (continued)

#### Statutory receivables general information

##### Traffic fines receivable:

Revenue type - Non-exchange revenue

Legislation that gives rise to the transactions - In accordance with the Administrative Adjudication of Road Traffic Offences Act, 1998.

Rates and interest charges - The Act determines rates; no interest is charged.

Impairment consideration - Collection rate of the balance as a whole, thereafter discounting is considered in terms of materiality.

##### Grants receivable:

Revenue type - Non-exchange revenue

Legislation that gives rise to the transactions - In accordance with sections 7(3) and 15(1) of the Division of Revenue Act, 2013.

Grants and interest charges - The Act determines the grants; no interest is charged.

Impairment consideration - Collection rate of the balance as a whole, thereafter discounting is considered in terms of materiality.

#### Interest or other charges levied/charged

No other receivables from non-exchange transactions generated interest income and no other levies were charged.

#### Statutory receivables past due but not impaired

Statutory receivables which are past due are considered to be impaired. At 30 June 2022, R764,212 (2021: R950,267) were past due but not impaired.

#### Factors the entity considered in assessing statutory receivables past due but not impaired

Other receivables from non-exchange transactions are assessed in terms of their respective overall payment percentages. Some receivables are therefore past due, but the balances are still expected to be recoverable based on the payment percentages.

#### Statutory receivables impaired

As of 30 June 2022, Statutory receivables of R397,375,914 (2021: R394,336,023) were impaired and provided for.

The amount of the provision was R397,375,914 as of 30 June 2022 (2021: R394,336,023).

#### Reconciliation of provision for impairment for statutory receivables

|                                     |                    |                    |
|-------------------------------------|--------------------|--------------------|
| Opening balance                     | 394,336,023        | 388,596,217        |
| Provision for impairment adjustment | 3,039,891          | 5,739,806          |
|                                     | <b>397,375,914</b> | <b>394,336,023</b> |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
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### 4. Other receivables from non-exchange transactions (continued)

**Main events and circumstances that led to the recognition or reversal of impairment losses on statutory receivables**

**Significant impairment losses recognised or reversed**

**Impairment Recognised - Traffic fines receivables:**

Annually the outstanding receivables are assessed in terms of the value of fines issued in comparison to the receipts generated from such fines. The remaining balance is considered recoverable based on this payment percentage. The impairment loss is similar to our expectation, but quantitatively the impairment is significant and therefore disclosed separately.

**Impairment Recognised - Government grants receivable:**

The average credit period for government grants and subsidies is dependent on the Government Department involved and the nature of claim. No interest is charged on outstanding government grants and subsidies. The subsidies are payable to the municipality per allocations made in the Division of Revenue Act or based on agreements between the municipality and the relevant departments. Government Grants and Subsidies receivable which are past due is not impaired as management have no concerns over the credit quality of these assets, but except for the instance on the claim for VAT on grants receivable as disclosed above.

### 5. Consumer receivables from exchange transactions

#### Gross balances

|                |                      |                      |
|----------------|----------------------|----------------------|
| Electricity    | 1,198,323,096        | 1,161,266,207        |
| Water          | 4,024,156,721        | 3,205,682,833        |
| Sewerage       | 981,563,472          | 859,494,537          |
| Refuse         | 432,196,527          | 367,856,939          |
| Housing rental | 54,101,767           | 46,190,910           |
|                | <b>6,690,341,583</b> | <b>5,640,491,426</b> |

#### Less: Allowance for impairment

|                |                        |                        |
|----------------|------------------------|------------------------|
| Electricity    | (689,014,738)          | (611,874,721)          |
| Water          | (3,370,072,457)        | (2,477,691,632)        |
| Sewerage       | (831,762,941)          | (542,333,600)          |
| Refuse         | (368,339,794)          | (305,510,550)          |
| Housing rental | (50,551,364)           | (42,029,127)           |
|                | <b>(5,309,741,294)</b> | <b>(3,979,439,630)</b> |

#### Net balance

|                |                      |                      |
|----------------|----------------------|----------------------|
| Electricity    | 509,308,358          | 549,391,486          |
| Water          | 654,084,264          | 727,991,201          |
| Sewerage       | 149,800,531          | 317,160,937          |
| Refuse         | 63,856,733           | 62,346,389           |
| Housing rental | 3,550,403            | 4,161,783            |
|                | <b>1,380,600,289</b> | <b>1,661,051,796</b> |

#### Electricity

|                                                                  |                    |                    |
|------------------------------------------------------------------|--------------------|--------------------|
| Current (0 -30 days)                                             | 133,558,993        | 134,296,956        |
| 31 - 60 days                                                     | 205,405,772        | 27,717,628         |
| 61 - 90 days                                                     | 17,301,819         | 23,062,385         |
| 90+ days                                                         | 649,361,505        | 783,976,577        |
| Meter reading estimate at year-end (Consumption across year-end) | 192,772,313        | 192,217,513        |
| Discounting                                                      | (77,306)           | (4,852)            |
| Less: Impairment                                                 | (689,014,738)      | (611,874,721)      |
|                                                                  | <b>509,308,358</b> | <b>549,391,486</b> |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

| Figures in Rand                                                       | 2022               | 2021               |
|-----------------------------------------------------------------------|--------------------|--------------------|
| <b>5. Consumer receivables from exchange transactions (continued)</b> |                    |                    |
| <b>Water</b>                                                          |                    |                    |
| Current (0 -30 days)                                                  | 264,470,622        | 107,068,129        |
| 31 - 60 days                                                          | 170,949,599        | 109,770,191        |
| 61 - 90 days                                                          | 116,616,494        | 98,156,749         |
| 90+ days                                                              | 3,437,143,519      | 2,860,719,602      |
| Meter reading estimate                                                | 34,976,487         | 29,968,162         |
| Less: Impairment                                                      | (3,370,072,457)    | (2,477,691,632)    |
|                                                                       | <b>654,084,264</b> | <b>727,991,201</b> |
| <b>Sewerage</b>                                                       |                    |                    |
| Current (0 -30 days)                                                  | 36,578,760         | 33,545,477         |
| 31 - 60 days                                                          | 25,434,393         | 24,600,877         |
| 61 - 90 days                                                          | 23,609,256         | 22,017,992         |
| 90+ days                                                              | 895,941,063        | 779,330,191        |
| Less: Impairment                                                      | (831,762,941)      | (542,333,600)      |
|                                                                       | <b>149,800,531</b> | <b>317,160,937</b> |
| <b>Refuse</b>                                                         |                    |                    |
| Current (0 -30 days)                                                  | 13,323,062         | 12,189,523         |
| 31 - 60 days                                                          | 10,105,134         | 9,302,005          |
| 61 - 90 days                                                          | 9,379,900          | 8,529,643          |
| 90+ days                                                              | 399,388,431        | 337,835,768        |
| Less: Impairment                                                      | (368,339,794)      | (305,510,550)      |
|                                                                       | <b>63,856,733</b>  | <b>62,346,389</b>  |
| <b>Housing rental</b>                                                 |                    |                    |
| Current (0 -30 days)                                                  | 853,301            | 1,594,715          |
| 31 - 60 days                                                          | 901,227            | 885,306            |
| 61 - 90 days                                                          | 818,407            | 859,405            |
| 90+ days                                                              | 51,528,832         | 42,851,484         |
| Less: Impairment                                                      | (50,551,364)       | (42,029,127)       |
|                                                                       | <b>3,550,403</b>   | <b>4,161,783</b>   |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

| Figures in Rand                                                       | 2022                   | 2021                   |
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| <b>5. Consumer receivables from exchange transactions (continued)</b> |                        |                        |
| <b>Summary of receivables by customer classification</b>              |                        |                        |
| <b>Residential and Sundry</b>                                         |                        |                        |
| Current (0 -30 days)                                                  | 135,092,697            | 117,847,872            |
| 31 - 60 days                                                          | 160,251,412            | 114,632,040            |
| 61 - 90 days                                                          | 112,409,974            | 98,832,361             |
| 90+ days                                                              | 3,808,649,222          | 3,164,325,350          |
| Meter reading estimate                                                | 227,671,494            | 222,180,822            |
|                                                                       | <b>4,444,074,799</b>   | <b>3,717,818,445</b>   |
| Less: Allowance for impairment                                        | <b>(3,787,297,780)</b> | <b>(3,169,702,365)</b> |
|                                                                       | <b>656,777,019</b>     | <b>548,116,080</b>     |
| <b>Business / commercial</b>                                          |                        |                        |
| Current (0 -30 days)                                                  | 272,224,363            | 132,025,652            |
| 31 - 60 days                                                          | 35,626,339             | 31,198,542             |
| 61 - 90 days                                                          | 27,510,230             | 25,923,268             |
| 90+days                                                               | 566,264,056            | 528,697,328            |
|                                                                       | <b>901,624,988</b>     | <b>717,844,790</b>     |
| Less: Allowance for impairment                                        | <b>(479,461,776)</b>   | <b>(472,731,378)</b>   |
|                                                                       | <b>422,163,212</b>     | <b>245,113,412</b>     |
| <b>National and provincial government</b>                             |                        |                        |
| Current (0 -30 days)                                                  | 41,467,677             | 38,821,275             |
| 31 - 60 days                                                          | 216,918,374            | 26,445,426             |
| 61 - 90 days                                                          | 27,805,674             | 27,870,545             |
| 90+ days                                                              | 1,058,450,001          | 1,111,690,944          |
|                                                                       | <b>1,344,641,726</b>   | <b>1,204,828,190</b>   |
| Less: Allowance for impairment                                        | <b>(1,042,981,739)</b> | <b>(337,005,884)</b>   |
|                                                                       | <b>301,659,987</b>     | <b>867,822,306</b>     |
| <b>Total</b>                                                          |                        |                        |
| Current (0 -30 days)                                                  | 448,784,737            | 288,694,798            |
| 31 - 60 days                                                          | 412,796,125            | 172,276,008            |
| 61 - 90 days                                                          | 167,725,878            | 152,626,174            |
| 90+days                                                               | 5,433,363,349          | 4,804,713,622          |
| Meter reading estimates                                               | 227,671,495            | 222,180,822            |
|                                                                       | <b>6,690,341,584</b>   | <b>5,640,491,424</b>   |
| Less: Allowance for impairment                                        | <b>(5,309,741,295)</b> | <b>(3,979,439,628)</b> |
|                                                                       | <b>1,380,600,289</b>   | <b>1,661,051,796</b>   |

### Consumer receivables pledged as security

None of the consumer receivables from exchange transactions were pledged as security for any financial liability.

### Credit quality of consumer receivables

The credit quality of consumer receivables from exchange transactions that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

None of the consumer receivables from exchange transactions that are fully performing have been renegotiated in the last year.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

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### 5. Consumer receivables from exchange transactions (continued)

#### Consumer receivables past due but not impaired

Consumer debtors which are less than 3 months past due are not considered to be impaired. At 30 June 2022, R 674,427,761 (2021: R 823,513,655) were past due but not impaired.

The ageing of amounts past due but not impaired is as follows:

|                   |                    |                    |
|-------------------|--------------------|--------------------|
| Current           | 122,300,727        | 125,870,338        |
| 1 month past due  | 339,973,965        | 165,711,841        |
| 2 months past due | 160,157,188        | 145,343,097        |
| 3 months past due | 51,995,881         | 386,588,379        |
|                   | <b>674,427,761</b> | <b>823,513,655</b> |

#### Consumer receivables impaired

As of 30 June 2022, consumer debtors of R 5,309,741,294 (2021: R 3,979,439,629) were impaired and provided for.

The amount of the provision was R 5,309,741,294 as of 30 June 2022 (2021: R 3,979,439,629).

The ageing of these consumer receivables is as follows:

|               |               |               |
|---------------|---------------|---------------|
| 1 to 3 months | 689,014,738   | 611,874,721   |
| Over 3 months | 4,620,726,556 | 3,367,564,908 |

#### Reconciliation of allowance for impairment of consumer receivables from exchange transactions

|                          |                      |                      |
|--------------------------|----------------------|----------------------|
| Opening balance          | 3,979,439,629        | 3,285,406,772        |
| Allowance for impairment | 1,330,301,665        | 694,032,857          |
|                          | <b>5,309,741,294</b> | <b>3,979,439,629</b> |

Due to the limitations on the financial system, it is impractical to disclose the impaired interest on consumer receivables from exchange transactions.

The municipality enters into settlement agreements with receivables whose accounts are long overdue and these agreements carry no interest. The balance that is settled over a period longer than 12 months is deemed to constitute a financing arrangement and is accounted for at the net present value of the future cash flows. The accounts which are due for more than 12 months are disclosed as non-current receivables.

The creation and release of provision for impaired receivables have been included in expenses in the statement of financial performance. Unwinding of discount is included in the notes to the statement of financial performance. Amounts charged to the allowance account are generally written off when there is no expectation of recovering additional cash.

The maximum exposure to credit risk at the reporting date is the fair value of each class of consumer receivable mentioned above. The municipality does not hold any collateral as security.

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

### 6. Consumer receivables from non-exchange transactions

#### Gross balances

|                              |               |               |
|------------------------------|---------------|---------------|
| Consumer receivables - Rates | 1,770,700,356 | 1,683,420,488 |
|------------------------------|---------------|---------------|

#### Less: Allowance for impairment

|                              |                 |               |
|------------------------------|-----------------|---------------|
| Consumer receivables - Rates | (1,431,811,916) | (916,946,967) |
|------------------------------|-----------------|---------------|

#### Net balance

|                              |             |             |
|------------------------------|-------------|-------------|
| Consumer receivables - Rates | 338,888,440 | 766,473,521 |
|------------------------------|-------------|-------------|

#### Statutory receivables included in consumer receivables from non-exchange transactions above are as follows:

|                              |             |             |
|------------------------------|-------------|-------------|
| Consumer receivables - Rates | 338,888,440 | 766,473,521 |
|------------------------------|-------------|-------------|

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

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### 6. Consumer receivables from non-exchange transactions (continued)

#### Ageing of rates receivable

|                                |                    |                    |
|--------------------------------|--------------------|--------------------|
| Current (0 -30 days)           | 104,486,450        | 103,545,323        |
| 31 - 60 days                   | 65,286,305         | 71,173,955         |
| 61 - 90 days                   | 62,155,532         | 60,264,741         |
| 91+ days                       | 1,538,772,069      | 1,448,436,469      |
| Less: Allowance for impairment | (1,431,811,916)    | (916,946,967)      |
|                                | <b>338,888,440</b> | <b>766,473,521</b> |

#### Summary by customer classification

##### Residential and sundry

|                                |                    |                    |
|--------------------------------|--------------------|--------------------|
| Current (0 -30 days)           | 40,248,037         | 36,805,328         |
| 31 - 60 days                   | 25,808,983         | 23,525,794         |
| 61 - 90 days                   | 25,837,550         | 20,747,949         |
| 90+ days                       | 734,958,960        | 634,571,376        |
|                                | 826,853,530        | 715,650,447        |
| Less: Allowance for impairment | (700,420,547)      | (604,834,028)      |
|                                | <b>126,432,983</b> | <b>110,816,419</b> |

##### Business / commercial

|                                |                    |                    |
|--------------------------------|--------------------|--------------------|
| Current (0 -30 days)           | 43,425,727         | 44,214,227         |
| 31 - 60 days                   | 19,001,256         | 25,906,078         |
| 61 - 90 days                   | 15,875,257         | 17,795,683         |
| 90+ days                       | 348,843,632        | 363,764,495        |
|                                | 427,145,872        | 451,680,483        |
| Less: Allowance for impairment | (293,870,561)      | (312,112,939)      |
|                                | <b>133,275,311</b> | <b>139,567,544</b> |

##### Government

|                                |                   |                    |
|--------------------------------|-------------------|--------------------|
| Current (0 -30 days)           | 20,812,685        | 22,525,767         |
| 31 - 60 days                   | 20,476,066        | 21,742,083         |
| 61 - 90 days                   | 20,442,724        | 21,721,109         |
| 90+ days                       | 454,969,478       | 450,100,599        |
|                                | 516,700,953       | 516,089,558        |
| Less: Allowance for impairment | (437,520,808)     | -                  |
|                                | <b>79,180,145</b> | <b>516,089,558</b> |

#### Reconciliation of allowance for impairment

|                                  |                      |                    |
|----------------------------------|----------------------|--------------------|
| Balance at beginning of the year | 916,946,967          | 749,249,421        |
| Contributions to allowance       | 514,864,949          | 167,697,546        |
|                                  | <b>1,431,811,916</b> | <b>916,946,967</b> |

Due to the limitations on the financial system, it is impractical to disclose the impaired interest on consumer receivables from non-exchange transactions.

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

Consumer receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired.

#### Consumer receivables from non-exchange transactions pledged as security

None of the consumer receivables from non-exchange transactions were pledged as security for any financial liability.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

| Figures in Rand | 2022 | 2021 |
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### 6. Consumer receivables from non-exchange transactions (continued)

#### Consumer receivables from non-exchange transactions past due but not impaired

Consumer receivables from non-exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2022: R127,441,837 (2021: R131,438,696) were past due but not impaired.

#### The ageing of amounts past due but not impaired is as follows:

|                   |                    |                    |
|-------------------|--------------------|--------------------|
| 1 month past due  | 65,286,305         | 71,173,955         |
| 2 months past due | 62,155,532         | 60,264,741         |
|                   | <b>127,441,837</b> | <b>131,438,696</b> |

#### Consumer receivables from non-exchange transactions impaired

As at 30 June 2022, consumer receivables from non-exchange transactions of R1,431,811,916 (2021: R916,946,967) were impaired and provided for.

#### The ageing of amounts impaired is as follows:

|               |               |             |
|---------------|---------------|-------------|
| Over 3 months | 1,431,811,916 | 916,946,967 |
|---------------|---------------|-------------|

### Statutory receivables general information

#### Rates

Revenue type - Non-exchange revenue

Legislation that gives rise to the transactions - Municipal Property Rates Act 6 of 2004.

Rates and interest charges - Municipal Tariff Policy, Interest charged.

Impairment consideration - Individual collection rates, interest charged at discount rate.

#### Interest or other charges levied/charged

Interest was only charged on outstanding rates accounts. No other levies were charged.

#### Statutory receivables past due but not impaired

Statutory receivables which are less than 3 months past due are not considered to be impaired. At 30 June 2022, R127,441,837 (2021: R131,438,696) were past due but not impaired.

#### The ageing of amounts past due but not impaired is as follows:

|                   |                    |                    |
|-------------------|--------------------|--------------------|
| 1 month past due  | 65,286,305         | 71,173,955         |
| 2 months past due | 62,155,532         | 60,264,741         |
|                   | <b>127,441,837</b> | <b>131,438,696</b> |

#### Statutory receivables impaired

As of 30 June 2022, Statutory receivables of R1,431,811,916 (2021: R916,946,967) were impaired and provided for.

The amount of the provision was R1,431,811,916 as of 30 June 2022 (2021: R916,946,967).

#### Reconciliation of provision for impairment for statutory receivables

|                          |                      |                    |
|--------------------------|----------------------|--------------------|
| Opening balance          | 916,946,967          | 749,249,421        |
| Provision for impairment | 514,864,949          | 167,697,546        |
|                          | <b>1,431,811,916</b> | <b>916,946,967</b> |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

| Figures in Rand                                        | 2022               | 2021               |
|--------------------------------------------------------|--------------------|--------------------|
| <b>7. Other receivables from exchange transactions</b> |                    |                    |
| Accrued interest on investments                        | 88,667             | 101,241            |
| Deferred lease                                         | 11,699,673         | 12,166,352         |
| Deposits                                               | 1,075,818          | 1,055,996          |
| DOE Grant - Southern Free State Towns                  | 4,737,728          | 4,737,728          |
| Kopanong Local Municipality                            | 26,034,149         | 23,401,865         |
| Mohokare Local Municipality                            | 70,469,240         | 53,039,920         |
| Other receivables                                      | 23,445,996         | 11,286,092         |
| Overpayment of contractors                             | 19,351,080         | 19,351,080         |
| Impairment - Overpayment of contractors                | (19,351,079)       | (19,351,079)       |
| Prepaid electricity vendors                            | 22,739,742         | 19,370,622         |
| Prepaid water vendors                                  | 11,321,468         | 11,179,302         |
| Receipt reversal                                       | 454,600            | 451,044            |
| Staff leave days receivable                            | 14,003             | 17,576             |
| Sundry receivables                                     | 140,537,863        | 124,734,968        |
| Impairment - Sundry receivables                        | (89,357,981)       | (72,899,137)       |
| Cricket stadium                                        | 2,573,558          | 1,971,904          |
| Impairment - Cricket stadium                           | (2,573,558)        | (1,971,904)        |
| Housing and erven selling schemes                      | 3,131,465          | 2,956,340          |
| Impairment - Housing and erven selling schemes         | (3,076,017)        | (2,914,231)        |
|                                                        | <b>223,316,415</b> | <b>188,685,679</b> |

### Other receivables from exchange transactions pledged as security

None of the other receivables from exchange transactions were pledged as security for any financial liability.

### Credit quality of other receivables from exchange transactions

The credit quality of other receivables from exchange transactions that are neither past nor due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

None of the other receivables from exchange transactions that are fully performing have been renegotiated in the last year.

### Other receivables from exchange transactions past due but not impaired

Other receivables from exchange transactions which are less than 3 months past due are not considered to be impaired. At 30 June 2022, R9,901,219 (2021: R11,281,775) were past due but not impaired.

### The ageing of amounts past due but not impaired is as follows:

|                  |           |            |
|------------------|-----------|------------|
| 1 month past due | 9,901,219 | 11,281,775 |
|------------------|-----------|------------|

### Other receivables from exchange transactions impaired

As of 30 June 2022, trade and other receivables of R114,358,635 (2021: R97,136,351) were impaired and provided for.

The amount of the provision was R114,358,635 as of 30 June 2022 (2021: R97,136,351).

### The ageing of these receivables are as follows:

|               |             |            |
|---------------|-------------|------------|
| Over 3 months | 114,358,635 | 97,136,351 |
|---------------|-------------|------------|

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

|                          |                    |                   |
|--------------------------|--------------------|-------------------|
| Opening balance          | 97,136,351         | 72,826,720        |
| Provision for impairment | 17,222,284         | 24,309,631        |
|                          | <b>114,358,635</b> | <b>97,136,351</b> |

Other receivables from exchange transactions consist of receivables raised from other income from exchange transactions recognised (refer to note 36 - Other income).

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

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### 7. Other receivables from exchange transactions (continued)

Due to the limitations on the financial system, it is impractical to disclose the impaired interest on other receivables from exchange transactions.

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

### 8. Cash and cash equivalents

Cash and cash equivalents consist of:

|                     |                    |                    |
|---------------------|--------------------|--------------------|
| Cash on hand        | 143,049            | 142,049            |
| Bank balances       | 52,895,091         | 44,613,868         |
| Short-term deposits | 687,495,330        | 166,744,014        |
|                     | <b>740,533,470</b> | <b>211,499,931</b> |

An unlimited surety is provided by Free State Provincial Government, National Treasury and the Development Bank of South Africa.

The total of the overdraft facility available to the entity is R50,000,000 (2021: R50,000,000).

There are no restrictions on the entity's ability to realise cash balances.

#### Credit quality of cash at bank and short-term deposits, excluding cash on hand

The credit quality of cash at bank and short-term deposits, excluding cash on hand that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or historical information about counterparty default rates:

#### Credit rating

|     |                    |                    |
|-----|--------------------|--------------------|
| Ba1 | 740,390,421        | -                  |
| Ba2 | -                  | 211,357,882        |
|     | <b>740,390,421</b> | <b>211,357,882</b> |

#### Cash and cash equivalents pledged as collateral

|                                                                   |            |            |
|-------------------------------------------------------------------|------------|------------|
| Total financial assets pledged as collateral for the COID Reserve | 25,857,106 | 25,136,426 |
|-------------------------------------------------------------------|------------|------------|

The term deposit investment is pledged as security to the Compensation Commissioner of the Workmen's Compensation Fund to guarantee the payment of claims in respect of injuries while on duty.

# Mangaung Metropolitan Municipality

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## Notes to the Consolidated Annual Financial Statements

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|-----------------|------|------|

### 8. Cash and cash equivalents (continued)

The entity had the following bank accounts

| Account number / description              | Bank statement balances |                   |                   | Cash book balances |                   |                   |
|-------------------------------------------|-------------------------|-------------------|-------------------|--------------------|-------------------|-------------------|
|                                           | 2022                    | 2021              | 2020              | 2022               | 2021              | 2020              |
| <b>Mangaung Metropolitan Municipality</b> |                         |                   |                   |                    |                   |                   |
| Nedbank 1186196793 (Primary Account)      | 35,091,277              | 21,032,744        | 34,794,910        | 34,833,656         | 20,478,683        | 34,258,129        |
| Nedbank 1186245379 (Traffic)              | -                       | -                 | -                 | 9,274              | 4,550             | 11,290            |
| Nedbank 1186660643 (Charges)              | -                       | -                 | -                 | (45,893)           | (46,584)          | (37,293)          |
| Nedbank 1186239778 (Cashiers)             | -                       | -                 | -                 | 1,860,814          | 1,964,827         | 1,795,925         |
| Nedbank 1186414936 (Fresh Produce Market) | 4,416,943               | 5,289,942         | 5,926,673         | 4,416,943          | 5,289,942         | 5,926,673         |
| ABSA 470000465 (Primary Account)          | 337,426                 | 1,110,350         | 769,186           | 337,426            | 1,110,350         | 769,186           |
| <b>Centlec (SOC) Limited</b>              |                         |                   |                   |                    |                   |                   |
| ABSA - Cheque Account 4058833582          | 694,130                 | 14,244,652        | 7,339,445         | 13,821,551         | 19,079,605        | 12,331,558        |
| ABSA - Cheque Account 4055133721          | 7,785                   | 2,184             | 65,118            | (2,215)            | 2,183             | 65,118            |
| ABSA - Cheque Account 4054065339          | 16,772                  | 17,711            | 508,858           | (16,524)           | (15,526)          | 505,129           |
| ABSA - Cheque Account 470001402           | 4,538,094               | 3,678,568         | 28,037,946        | (1,946,261)        | (2,491,747)       | 21,868,526        |
| ABSA - Cheque Account 4054530924          | 258                     | (282)             | 815               | (882)              | (1,422)           | (325)             |
| ABSA - Cheque Account 4078209583          | 93,919                  | 126,423           | 905,890           | (345,125)          | (715,953)         | (2,044,416)       |
| ABSA - Cheque Account 4080522070          | 377                     | 3,684             | 66,316            | 378                | 11,049            | (399,124)         |
| ABSA - Cheque Account 4080521896          | 685                     | 656               | 128,543           | 685                | 656               | 128,543           |
| ABSA - Cheque Account 9326102088          | 1,168                   | 98                | 60,816            | (28,736)           | (56,744)          | 47,496            |
| ABSA - 1 Day call account 9280674256      | 773,068                 | 8,935             | 5,008             | 773,068            | 8,935             | 5,008             |
| <b>Total</b>                              | <b>45,971,902</b>       | <b>45,515,665</b> | <b>78,609,524</b> | <b>53,668,159</b>  | <b>44,622,804</b> | <b>75,231,423</b> |

The cash book balances indicated in the table above are balances prior to the sweeping of sub-accounts to the main account done by the bank at year end.

### Summary of short-term deposits held

|         |                    |                    |
|---------|--------------------|--------------------|
| ABSA    | 26,630,174         | 25,145,361         |
| Nedbank | 660,865,156        | 141,598,653        |
|         | <b>687,495,330</b> | <b>166,744,014</b> |

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### 9. Investment property

|                     | 2022             |                                                     |                | 2021             |                                                     |                |
|---------------------|------------------|-----------------------------------------------------|----------------|------------------|-----------------------------------------------------|----------------|
|                     | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 1,585,611,015    | -                                                   | 1,585,611,015  | 1,570,916,988    | -                                                   | 1,570,916,988  |

#### Reconciliation of investment property - 2022

|                     | Opening balance | Derecognition | Fair value adjustments | Total         |
|---------------------|-----------------|---------------|------------------------|---------------|
| Investment property | 1,570,916,988   | (338,618)     | 15,032,645             | 1,585,611,015 |

#### Reconciliation of investment property - 2021

|                     | Opening balance | Derecognition | Total         |
|---------------------|-----------------|---------------|---------------|
| Investment property | 1,571,238,441   | (321,453)     | 1,570,916,988 |

#### Pledged as security

No investment property has been pledged as security for any financial liability.

#### Investment property in the process of being constructed or developed

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

#### Details of property

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.

#### Details of valuation

The effective date of the valuation was 30 June 2022. The entity's investment property was revalued by independent professional qualified valuers who hold a recognised relevant professional qualification and have recent experience in the locations and categories of the investment properties valued.

The investment properties were revalued with reference to comparable market data where available, as well as information from the valuation roll.

#### Investment property above includes the following:

##### The following maintenance costs were incurred:

|                                            |                      |                      |
|--------------------------------------------|----------------------|----------------------|
| Revenue generating investment property     | 1,180,430,000        | 1,180,454,100        |
| Non-revenue generating investment property | 405,181,015          | 390,462,888          |
|                                            | <b>1,585,611,015</b> | <b>1,570,916,988</b> |

#### Amounts recognised in surplus or deficit

|                                                               |                  |                  |
|---------------------------------------------------------------|------------------|------------------|
| Rental revenue from Investment property                       | 5,812,038        | 5,576,262        |
| <b>From Investment property that generated rental revenue</b> |                  |                  |
| Direct operating expenses (excluding repairs and maintenance) | 5,658,787        | 8,309,405        |
| Repairs and maintenance                                       | -                | 205              |
|                                                               | <b>5,658,787</b> | <b>8,309,610</b> |

This cost consists of payments made to contractors for repairing and maintaining these assets.

No staff member is engaged in any labour towards the repair and maintenance of investment property.

# Mangaung Metropolitan Municipality

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### 10. Property, plant and equipment

|                                                                   | 2022                  |                                                     |                       | 2021                  |                                                     |                       |
|-------------------------------------------------------------------|-----------------------|-----------------------------------------------------|-----------------------|-----------------------|-----------------------------------------------------|-----------------------|
|                                                                   | Cost / Valuation      | Accumulated depreciation and accumulated impairment | Carrying value        | Cost / Valuation      | Accumulated depreciation and accumulated impairment | Carrying value        |
| Land                                                              | 1,320,246,688         | -                                                   | 1,320,246,688         | 1,587,503,856         | -                                                   | 1,587,503,856         |
| Buildings                                                         | 1,165,575,107         | (19,207,809)                                        | 1,146,367,298         | 1,163,142,338         | (152,030,640)                                       | 1,011,111,698         |
| Buildings - Service concession asset                              | 304,960,000           | -                                                   | 304,960,000           | 304,959,226           | (70,155,154)                                        | 234,804,072           |
| Buildings WIP                                                     | 14,067,082            | -                                                   | 14,067,082            | 12,231,300            | -                                                   | 12,231,300            |
| Infrastructure - Roads and roads related                          | 6,097,632,736         | (3,469,761,205)                                     | 2,627,871,531         | 5,858,085,468         | (3,239,651,728)                                     | 2,618,433,740         |
| Infrastructure - Sanitation network                               | 3,507,174,433         | (1,115,423,876)                                     | 2,391,750,557         | 3,490,590,062         | (992,479,345)                                       | 2,498,110,717         |
| Infrastructure - Water meters                                     | 103,958,144           | (2,191,096)                                         | 101,767,048           | 204,726,798           | (55,644,357)                                        | 149,082,441           |
| Infrastructure - Water network                                    | 2,513,775,183         | (1,083,909,917)                                     | 1,429,865,266         | 2,451,567,150         | (1,012,097,548)                                     | 1,439,469,602         |
| Infrastructure - Roads and roads related Service concession asset | 207,856,318           | (67,298,215)                                        | 140,558,103           | 196,882,933           | (52,111,305)                                        | 144,771,628           |
| Infrastructure - WIP                                              | 1,186,567,859         | (1,892,624)                                         | 1,184,675,235         | 1,113,148,736         | -                                                   | 1,113,148,736         |
| Community - Landfill sites and quarries                           | 749,685,629           | (608,811,993)                                       | 140,873,636           | 769,729,681           | (560,558,273)                                       | 209,171,408           |
| Community - Other                                                 | 1,365,759,450         | (718,879,291)                                       | 646,880,159           | 1,337,058,154         | (663,910,737)                                       | 673,147,417           |
| Community - WIP                                                   | 118,667,666           | (1,935,806)                                         | 116,731,860           | 119,839,603           | -                                                   | 119,839,603           |
| Fleet                                                             | 659,758,110           | (316,672,672)                                       | 343,085,438           | 641,546,054           | (269,590,852)                                       | 371,955,202           |
| Other property, plant and equipment                               | 217,942,316           | (163,615,461)                                       | 54,326,855            | 202,363,487           | (147,594,845)                                       | 54,768,642            |
| Infrastructure - Sanitation network - Service concession asset    | 39,105,058            | (3,556,384)                                         | 35,548,674            | 29,731,906            | (2,813,509)                                         | 26,918,397            |
| Infrastructure - Electricity network                              | 7,157,520,365         | (1,270,573,118)                                     | 5,886,947,247         | 6,987,057,842         | (1,069,801,201)                                     | 5,917,256,641         |
| Infrastructure - Water network Service concession asset           | 14,836,180            | (1,691,362)                                         | 13,144,818            | 14,836,180            | (1,345,979)                                         | 13,490,201            |
| <b>Total</b>                                                      | <b>26,745,088,324</b> | <b>(8,845,420,829)</b>                              | <b>17,899,667,495</b> | <b>26,485,000,774</b> | <b>(8,289,785,473)</b>                              | <b>18,195,215,301</b> |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

Figures in Rand

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

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

|                                                                   | Opening balance       | Additions<br>(Including WIP<br>additions) | Disposals           | Transfers          | Revaluations         | Depreciation         | Impairment loss     | Total                 |
|-------------------------------------------------------------------|-----------------------|-------------------------------------------|---------------------|--------------------|----------------------|----------------------|---------------------|-----------------------|
| Land                                                              | 1,587,503,856         | 12,740,331                                | (875,000)           | (8,241,163)        | (270,881,336)        | -                    | -                   | 1,320,246,688         |
| Buildings                                                         | 1,011,111,698         | -                                         | (1,687,450)         | 5,990,545          | 167,258,636          | (36,306,131)         | -                   | 1,146,367,298         |
| Buildings - Service concession asset                              | 234,804,072           | -                                         | -                   | -                  | 82,421,118           | (12,265,190)         | -                   | 304,960,000           |
| Buildings WIP                                                     | 12,231,300            | 7,826,327                                 | -                   | (5,990,545)        | -                    | -                    | -                   | 14,067,082            |
| Infrastructure - Roads and roads related                          | 2,618,433,740         | -                                         | (25,220,424)        | 291,163,191        | -                    | (256,504,976)        | -                   | 2,627,871,531         |
| Infrastructure - Sanitation network                               | 2,498,110,717         | -                                         | (84)                | 16,596,322         | -                    | (122,956,398)        | -                   | 2,391,750,557         |
| Infrastructure - Water meters                                     | 149,082,441           | -                                         | (1,609,358)         | 37,818,010         | (61,672,193)         | (21,851,852)         | -                   | 101,767,048           |
| Infrastructure - Water network                                    | 1,439,469,602         | -                                         | (2,296,841)         | 65,838,676         | -                    | (73,146,171)         | -                   | 1,429,865,266         |
| Infrastructure - WIP                                              | 1,113,148,736         | 686,541,181                               | -                   | (613,122,058)      | -                    | -                    | (1,892,624)         | 1,184,675,235         |
| Community - Landfill sites and quarries                           | 209,171,408           | -                                         | -                   | -                  | (20,044,052)         | (45,215,827)         | (3,037,893)         | 140,873,636           |
| Community - Other                                                 | 673,147,417           | 2,900,907                                 | -                   | 25,800,391         | -                    | (54,143,843)         | (824,713)           | 646,880,159           |
| Community - WIP                                                   | 119,839,603           | 24,628,454                                | -                   | (25,800,391)       | -                    | -                    | (1,935,806)         | 116,731,860           |
| Infrastructure - Roads and roads related Service concession asset | 144,771,628           | -                                         | -                   | 10,973,385         | -                    | (15,186,910)         | -                   | 140,558,103           |
| Fleet                                                             | 371,955,202           | 25,967,738                                | (1,355,379)         | -                  | -                    | (35,669,203)         | (17,812,920)        | 343,085,438           |
| Other property, plant and equipment                               | 54,768,642            | 15,713,410                                | (89,239)            | -                  | -                    | (16,048,097)         | (17,861)            | 54,326,855            |
| Infrastructure - Sanitation network - Service concession asset    | 26,918,397            | -                                         | -                   | 9,373,152          | -                    | (742,875)            | -                   | 35,548,674            |
| Infrastructure - Electricity network                              | 5,917,256,641         | 312,704                                   | (7,778,166)         | 181,359,320        | (287,814)            | (203,653,082)        | (262,356)           | 5,886,947,247         |
| Infrastructure - Water network Service concession asset           | 13,490,201            | -                                         | -                   | -                  | -                    | (345,383)            | -                   | 13,144,818            |
|                                                                   | <b>18,195,215,301</b> | <b>776,631,052</b>                        | <b>(40,911,941)</b> | <b>(8,241,165)</b> | <b>(103,205,641)</b> | <b>(894,035,938)</b> | <b>(25,784,173)</b> | <b>17,899,667,495</b> |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

Figures in Rand

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

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

|                                                                   | Opening balance       | Additions<br>(Including WIP<br>additions) | Disposals           | Transfers           | Revaluations      | Depreciation         | Impairment loss    | Total                 |
|-------------------------------------------------------------------|-----------------------|-------------------------------------------|---------------------|---------------------|-------------------|----------------------|--------------------|-----------------------|
| Land                                                              | 1,594,281,688         | 3,730,073                                 | (531,000)           | (9,976,905)         | -                 | -                    | -                  | 1,587,503,856         |
| Buildings                                                         | 1,043,985,161         | 194,994                                   | (304,205)           | 3,783,957           | -                 | (36,548,209)         | -                  | 1,011,111,698         |
| Buildings - Service concession asset                              | 248,267,349           | -                                         | -                   | -                   | -                 | (13,463,277)         | -                  | 234,804,072           |
| Buildings WIP                                                     | 13,673,030            | 2,342,228                                 | -                   | (3,783,958)         | -                 | -                    | -                  | 12,231,300            |
| Infrastructure - Roads and roads related                          | 2,794,200,235         | 4,374,449                                 | (23,488,966)        | 133,786,787         | -                 | (290,438,765)        | -                  | 2,618,433,740         |
| Infrastructure - Sanitation network                               | 2,573,193,430         | 654,372                                   | (263)               | 49,261,459          | -                 | (124,998,281)        | -                  | 2,498,110,717         |
| Infrastructure - Water meters                                     | 160,347,768           | -                                         | (6,562,303)         | 14,753,787          | -                 | (19,456,811)         | -                  | 149,082,441           |
| Infrastructure - Water network                                    | 1,509,691,381         | 392,394                                   | -                   | 5,092,243           | -                 | (75,706,416)         | -                  | 1,439,469,602         |
| Infrastructure - WIP                                              | 745,739,686           | 606,947,816                               | -                   | (239,538,766)       | -                 | -                    | -                  | 1,113,148,736         |
| Community - Landfill sites and quarries                           | 182,136,691           | -                                         | -                   | -                   | 73,834,275        | (46,799,558)         | -                  | 209,171,408           |
| Community - Other                                                 | 730,583,787           | -                                         | (508,757)           | 3,827,682           | -                 | (58,023,667)         | (2,731,628)        | 673,147,417           |
| Community - WIP                                                   | 83,850,090            | 39,817,196                                | -                   | (3,827,683)         | -                 | -                    | -                  | 119,839,603           |
| Infrastructure - Roads and roads related Service concession asset | 159,992,452           | -                                         | -                   | -                   | -                 | (15,220,824)         | -                  | 144,771,628           |
| Fleet                                                             | 386,729,939           | 19,607,813                                | (6,110)             | -                   | -                 | (34,376,224)         | (216)              | 371,955,202           |
| Other property, plant and equipment                               | 60,484,359            | 11,143,484                                | (76,279)            | -                   | -                 | (16,797,708)         | 14,786             | 54,768,642            |
| Infrastructure - Sanitation network Service concession asset      | 27,648,368            | -                                         | -                   | -                   | -                 | (729,971)            | -                  | 26,918,397            |
| Infrastructure - Electricity network                              | 6,100,822,865         | -                                         | (1,970,514)         | 28,739,453          | (3,347,623)       | (202,885,674)        | (4,101,866)        | 5,917,256,641         |
| Infrastructure - Water network Service concession asset           | 13,835,588            | -                                         | -                   | -                   | -                 | (345,387)            | -                  | 13,490,201            |
|                                                                   | <b>18,429,463,867</b> | <b>689,204,819</b>                        | <b>(33,448,397)</b> | <b>(17,881,944)</b> | <b>70,486,652</b> | <b>(935,790,772)</b> | <b>(6,818,924)</b> | <b>18,195,215,301</b> |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

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

#### Pledged as security

No property, plant and equipment were pledged as security for any financial liability, except for assets subjected to finance leases.

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

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| Fleet                               | 48,437,105        | 90,107,203        |
| Other property, plant and equipment | 3,509,621         | 5,546,855         |
|                                     | <b>51,946,726</b> | <b>95,654,058</b> |

#### Revaluations

##### Mangaung Metropolitan Municipality

#### Revaluation of land and buildings:

The effective date of the revaluations was 30 June 2022. Revaluations were performed by independent professionally qualified valuers who hold a recognised professional qualification and have recent experience in the locations and categories of the properties valued. The values of the properties were determined based on the market values and the information obtained from the valuation roll.

#### Revaluations of water meters:

The effective date of the revaluation was 30 June 2022. Revaluations were performed by an independent firm who have recent experience in the locations and categories of the meters valued.

#### The valuations were performed after the following factors were taken into account:

- the useful lives and;
- the condition of the asset.

#### Centlec (SOC) Ltd

The effective date of the revaluations for land and buildings was year-end 30 June 2020. Revaluations for land and buildings were performed by the independent valuers, Mr. Theunis Hendrik Myburgh & Mr. Raymond Taylor, professional valuers in terms of the Valuers' Act (Act 23 of 1982) of Equity Valuers. Equity Valuers are not connected to the municipal entity.

#### Revaluations of electricity infrastructure:

The effective date of the revaluations for the assets was year-end 30 June 2020. Revaluations were performed by the independent valuers, Mr Marius Koch (B Eng. Civil, BSC ITM (Information Technology) and Mrs. Anré Swart (Pr. Eng. GCC, MBA), Engineering Council of South Africa (ECSA) (Reg.no 20110016) from EMS Solutions (Pty) Ltd. EMS Solutions (Pty) Ltd is not connected to the municipal entity.

The effective date of the revaluations for the infrastructure assets was year end 30 June 2020. Revaluations for infrastructure assets were performed by the independent valuers, Mr Marius Koch (B Eng Civil, BSC ITM (Information Technology) and Mrs. Anré Swart (Pr.Eng, GCC, MBA), Engineering Council of South Africa (ECSA) (Reg.no 20110016) from EMS Solutions (Pty) Ltd. EMS Solutions (Pty) Ltd is not connected to the municipal entity.

The valuations were performed using the depreciated replacement costs method.

Unit rates are obtained for each asset through quotation. Unit rates are adjusted with the following factors:

- Preliminary & General (P & G's)
- Contingencies
- Engineering fees
- Location factor

The depreciated replacement costs are calculated by taking into account the estimated useful life and the condition of the asset.

Depreciated replacement costs = (Current Replacement Cost – Residual Value) x (Remaining Useful Life / Estimated Useful life) + Residual Value.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

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

#### Details of properties

A register containing the information required by section 63 of the Municipal Finance Management Act, (Act 56 of 2003) is available for inspection at the registered office of the entity.

The entity's asset management policy requires the verification of all moveable assets on an annual basis. However, due to the Covid-19 pandemic, the verification exercise could not be completed for all moveable assets.

#### Prior period errors

Certain prior period figures were restated due to errors identified in the current financial year, refer to note 70 for further details.

#### Change in estimate

For certain classes of property, plant and equipment the remaining useful lives were adjusted to a minimum remaining useful life of 3 years, refer to note 69 for further detail.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

| Figures in Rand                                                                                     | 2022               | 2021               |
|-----------------------------------------------------------------------------------------------------|--------------------|--------------------|
| <b>10. Property, plant and equipment (continued)</b>                                                |                    |                    |
| <b>Carrying value of property, plant and equipment that is taking a significantly longer period</b> |                    |                    |
| <b>Mangaung Metropolitan Municipality</b>                                                           |                    |                    |
| <b>Implementation of projects affected by the appointment of new service providers:</b>             |                    |                    |
| Project T1528 - Man RD 11388 & 11297 IN JB Mafora                                                   | -                  | 164,770            |
| Project W1404, A, B, C - Botshabelo and Thaba Nchu internal bulk                                    | 13,482,202         | 29,115,751         |
| Project C640/FFF3 - Open bus stations (bus stop shelter)                                            | -                  | 1,701,907          |
| Project T1538 - Victoria & Kolbe intersection                                                       | -                  | 638,697            |
| Project C273/PP3 & C534 - Botshabelo Development Node Phase 2                                       | 22,597,512         | 22,597,512         |
| Project T1432, -1, -2 - T1432 MAN 10786 Bergman Square                                              | 25,826,914         | 25,826,914         |
| <b>Implementation of projects affected by budgetary constraints:</b>                                |                    |                    |
| Project C063/A1 - Vistapark 2 - Re-Align Bulk Water Pipeline                                        | 24,038,124         | 24,038,124         |
| Project T1419B, B (1) - Road 6 (Phase 2) Upgrading of Street & Storm Water                          | 3,424,081          | 3,424,081          |
| Project T1522 - Thaba Nchu Rd 2029                                                                  | 436,992            | 436,992            |
| Project T1525 - Bot Rd 601: Upgrading of Street & Storm water                                       | 1,253,943          | 1,253,943          |
| Project T1529 (S1201) - Bot Rd 3824: Botshabelo West (Main Road)                                    | 636,628            | 636,628            |
| Project T1536 - Heavy Rehabilitation of Zastron Street                                              | 1,086,617          | 1,086,617          |
| Project W0903C - North Eastern WWTW Phase 2                                                         | 14,156,574         | 1,062,783          |
| Project W1416E, F, K - Basic Sanitation and Internal Bulk Services                                  | 5,715,172          | 5,715,172          |
| Project W1502, (1), B, C, G - M/P Water Re-Use (Pump Stat)                                          | 45,524,767         | 45,378,366         |
| Project W1515 - Maselspoort WTW Refurbishment                                                       | 2,809,609          | 2,809,609          |
| Project W1515F - Filter & Clar Refurbishment                                                        | 2,698,673          | 2,698,673          |
| Project W1515G, H - Hamilton Park Pump Station Refurbishment                                        | 991,929            | 991,929            |
| Project W1520 - Naval Hill Reservoir Phase 2                                                        | 1,464,702          | 1,464,702          |
| Project T1527B, C - Botshabela: Bogach St: Upgrading of Streets                                     | 753,831            | 753,831            |
| Project C480, C380/A1, C380/W1 - New office block (Botshabelo)                                      | 2,234,859          | 2,234,859          |
| Project W1403, B - Botshabelo and Thaba Nchu Internal Bulk                                          | 12,186,959         | 12,186,959         |
| <b>Contracts/Projects placed on hold:</b>                                                           |                    |                    |
| Project C288, 155 - Relocation of Zoo                                                               | 17,213,348         | 17,213,348         |
| Project C328 - Multi Purpose Centre Grassland 3                                                     | 89,187             | 89,187             |
| Project T1520, T1521 - Nelson Mandela and First Avenue Pedestrian Bridge                            | 10,114,050         | 10,114,050         |
| Project T1610A (S1201) - Upgrade of Streets and Storm Water                                         | -                  | 1,892,624          |
| <b>Contracts/Projects terminated:</b>                                                               |                    |                    |
| Project T1530 - Bot Rd B16 & 903: Section T                                                         | -                  | 1,334,935          |
| Project T1527A (2) - T1527A Bochabela Streets                                                       | -                  | 12,344,002         |
| <b>Implementation of projects delayed as a result of community unrest:</b>                          |                    |                    |
| Project C273/KK6D, KK6A - IPTN Bus Depot - Civil                                                    | -                  | 45,949,294         |
| Project C273/C13,13B - Forthare Contract 2                                                          | -                  | 16,086,033         |
| Project C273/C20,21,22,23 and 24 - IPTN Health and Safety                                           | -                  | 760,800            |
| Project C582/A1, B1, C1, D1, I1, K1 - IPTN Projects                                                 | -                  | 237,239,290        |
| Project T1428A, A3, A4 - T1428A Man Rd 198, 199 & 200 Bochabelo                                     | -                  | 3,358,401          |
| Project T1429B, B3 - T1429B Man Rd 11548 Kagisanong                                                 | -                  | 14,824,165         |
| Project T1430C, C1 - 7TH ST: Upgrading Of Street & Storm water                                      | -                  | 3,709,236          |
| Project T1527A, A1 Bochabela Streets                                                                | -                  | 10,040,385         |
| Project T1530-3 - T1530 BOT Rd B16 & 903 Section T Upgrade                                          | -                  | 604,354            |
| Project W1107(1), (3) - Refurbishment of Water Supply Systems                                       | 34,893,642         | 34,893,642         |
| Project C415/B1 - Internal sewer reticulation - 9981631                                             | 11,736,430         | 11,736,430         |
| <b>Centlec (SOC) Ltd</b>                                                                            |                    |                    |
| <b>Implementation of projects affected by budgetary constraints:</b>                                |                    |                    |
| The project to convert the old power station                                                        | 10,278,446         | 8,442,664          |
| <b>Contracts/Projects placed on hold:</b>                                                           |                    |                    |
| Botshabelo substation and 132kv line project                                                        | -                  | 98,327,336         |
| Solar farm project                                                                                  | 591,000            | 591,000            |
|                                                                                                     | <b>266,236,191</b> | <b>715,769,995</b> |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

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

Prior period figures were restated due to not all expenditure included in Project W1107(1) and Project C415/B1 omitted from the disclosure.

Projects which figures changed from a value in the prior year to zero in the current year had movement on the status of the project during the year.

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

|                     |                    |                    |
|---------------------|--------------------|--------------------|
| Contracted services | 327,570,764        | 254,659,850        |
| General expenditure | 20,152,029         | 14,708,618         |
|                     | <b>347,722,793</b> | <b>269,368,468</b> |

Prior period figures for contracted services (repairs and maintenance) was restated due to errors, refer to note 70 for prior period errors.

#### Deemed cost

Deemed cost was determined using depreciated replacement cost.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

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### 11. Intangible assets

|                         | 2022               |                                                     |                    | 2021               |                                                     |                    |
|-------------------------|--------------------|-----------------------------------------------------|--------------------|--------------------|-----------------------------------------------------|--------------------|
|                         | Cost / Valuation   | Accumulated amortisation and accumulated impairment | Carrying value     | Cost / Valuation   | Accumulated amortisation and accumulated impairment | Carrying value     |
| Computer software       | 73,961,149         | (51,685,630)                                        | 22,275,519         | 79,004,849         | (56,561,178)                                        | 22,443,671         |
| Intangible assets - WIP | 6,723,859          | -                                                   | 6,723,859          | 4,048,347          | -                                                   | 4,048,347          |
| Servitudes              | 105,748,273        | -                                                   | 105,748,273        | 78,548,273         | -                                                   | 78,548,273         |
| <b>Total</b>            | <b>186,433,281</b> | <b>(51,685,630)</b>                                 | <b>134,747,651</b> | <b>161,601,469</b> | <b>(56,561,178)</b>                                 | <b>105,040,291</b> |

#### Reconciliation of intangible assets - 2022

|                         | Opening balance    | Additions         | Disposals          | Amortisation        | Total              |
|-------------------------|--------------------|-------------------|--------------------|---------------------|--------------------|
| Computer software       | 22,443,671         | 15,452,437        | (3,204,085)        | (12,416,504)        | 22,275,519         |
| Intangible assets - WIP | 4,048,347          | 2,675,512         | -                  | -                   | 6,723,859          |
| Servitudes              | 78,548,273         | 27,200,000        | -                  | -                   | 105,748,273        |
|                         | <b>105,040,291</b> | <b>45,327,949</b> | <b>(3,204,085)</b> | <b>(12,416,504)</b> | <b>134,747,651</b> |

#### Reconciliation of intangible assets - 2021

|                         | Opening balance    | Additions         | Amortisation        | Total              |
|-------------------------|--------------------|-------------------|---------------------|--------------------|
| Computer software       | 23,280,187         | 9,358,863         | (10,195,379)        | 22,443,671         |
| Intangible assets - WIP | 2,699,560          | 1,348,787         | -                   | 4,048,347          |
| Servitudes              | 78,548,273         | -                 | -                   | 78,548,273         |
|                         | <b>104,528,020</b> | <b>10,707,650</b> | <b>(10,195,379)</b> | <b>105,040,291</b> |

#### Pledged as security

None of the intangible assets were pledged as security.

#### Intangible assets in the process of being constructed or developed

##### Cumulative expenditure recognised in the carrying value of Intangible assets

|                     |           |           |
|---------------------|-----------|-----------|
| Telemetry and Scada | 6,723,859 | 4,048,348 |
|---------------------|-----------|-----------|

#### Intangible assets with indefinite useful lives

|            |             |            |
|------------|-------------|------------|
| Servitudes | 105,748,273 | 78,548,273 |
|------------|-------------|------------|

The servitudes held by the entity are land rights that have been issued.

The land held by the entity, including servitudes, is deemed to have an indefinite useful life.

Certain prior period figures were restated due to errors identified in the current financial year, refer to note 70 for further details.

#### Deemed cost

Deemed cost was determined using depreciated replacement cost.

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### 12. Heritage assets

|                       | 2022             |                               |                | 2021             |                               |                |
|-----------------------|------------------|-------------------------------|----------------|------------------|-------------------------------|----------------|
|                       | Cost / Valuation | Accumulated impairment losses | Carrying value | Cost / Valuation | Accumulated impairment losses | Carrying value |
| Buildings and statues | 244,666,687      | -                             | 244,666,687    | 279,968,687      | -                             | 279,968,687    |

#### Reconciliation of heritage assets 2022

|                       | Opening balance | Revaluation (Reserve) | Total       |
|-----------------------|-----------------|-----------------------|-------------|
| Buildings and statues | 279,968,687     | (35,302,000)          | 244,666,687 |

#### Reconciliation of heritage assets 2021

|                       | Opening balance | Total       |
|-----------------------|-----------------|-------------|
| Buildings and statues | 279,968,687     | 279,968,687 |

#### Pledged as security

No heritage assets have been pledged as security for any financial liability.

#### Revaluations

#### Other heritage assets

The effective date of the revaluation was 30 June 2022. Revaluations were performed by independent professionally qualified valuers who hold a recognised professional qualification and have recent experience in the locations and categories of the properties valued.

The values of the properties were determined based on the market values and the information obtained from the municipal valuation roll.

The valuation was performed after the following factors were taken into account:

- the useful life of the asset;
- the condition of the asset; and
- the location of the asset.

#### Heritage assets in the process of being constructed or developed

No heritage assets are in the process of being constructed or developed.

#### Deemed costs

Deemed cost was determined using the depreciated replacement cost.

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| <b>13. Non-current receivables</b>              |                |                |
| <b>Designated at fair value</b>                 |                |                |
| 2535 Unlisted shares (Thaba Nchu) - OVK Limited | 43,303         | 38,595         |
| 2573 Unlisted shares (Naledi) - OVK Limited     | 46,314         | 42,455         |
| 3685 Unlisted shares - Senwes Ltd               | 34,642         | 31,000         |
|                                                 | <b>124,259</b> | <b>112,050</b> |
| <b>At amortised cost</b>                        |                |                |
| Housing and erven selling schemes               | 9,864,916      | 9,877,699      |
| Impairment - Housing and erven selling schemes  | (9,836,219)    | (9,860,204)    |
| Cricket stadium                                 | -              | 2,573,558      |
| Impairment - Cricket stadium                    | -              | (2,573,558)    |
| Kopanong Local Municipality                     | 369,719        | 549,647        |
| Mohokare Local Municipality                     | 203,751        | 299,293        |
|                                                 | <b>602,167</b> | <b>866,435</b> |
| <b>Total other financial assets</b>             | <b>726,426</b> | <b>978,485</b> |
| <b>Current assets</b>                           |                |                |
| At amortised cost                               | 273,713        | 275,470        |
| <b>Non-current assets</b>                       |                |                |
| Designated at fair value                        | 124,259        | 112,050        |
| At amortised cost                               | 328,454        | 590,965        |
|                                                 | <b>452,713</b> | <b>703,015</b> |

### Terms and conditions:

#### Housing and erven selling schemes

Loans were granted to qualifying individuals and public organisations in terms of the housing program. These loans attract interest of between 6% and 14% per annum and are repayable on a monthly basis by way of salary deductions for officials and six-monthly payments for public organisations over a period of 20 years.

#### Cricket stadium

The entity has a contract with the Free State Cricket Union for the purchase of the cricket stadium. The loan bears interest at 10% per annum and is repayable on an annual basis over 27 years ending 1 July 2022.

#### Kopanong Local Municipality

The capital funding provided to Kopanong Local Municipality is repayable in monthly installments based on the estimated useful life of the capital asset. The capital advances bears interest at 10%.

#### Mohokare Local Municipality

The capital funding provided to Mohokare Local Municipality is repayable in monthly installments based on the estimated useful life of the capital asset. The capital advances bears interest at 10%.

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### 13. Non-current receivables (continued)

#### Financial assets at fair value

##### Fair value hierarchy of financial assets at fair value

For financial assets recognised at fair value, disclosure is required of a fair value hierarchy which reflects the significance of the inputs used to make the measurements. The fair value hierarchy have the following levels:

Level 1 represents those assets which are measured using unadjusted quoted prices in active markets for identical assets.

Level 2 applies inputs other than quoted prices that are observable for the assets either directly (i.e. as prices) or indirectly (i.e. derived from prices).

Level 3 applies inputs which are not based on observable market data.

#### Level 3

|                           |         |         |
|---------------------------|---------|---------|
| Class 1 - Unlisted shares | 124,259 | 112,050 |
|---------------------------|---------|---------|

#### Financial assets at amortised cost

##### Financial assets at amortised cost past due but not impaired

Other non-current assets which are less than 3 months past due are not considered to be impaired. None of the other financial assets were past due but not impaired.

##### Financial assets at amortised cost impaired

As of 30 June 2022, other non-current assets of R9,836,219 (2021: R12,433,762) were impaired and provided for.

The amount of the provision was R9,836,219 as of 30 June 2022 (2021: R12,433,762).

The ageing of these loans are as follows.

|               |           |            |
|---------------|-----------|------------|
| Over 6 months | 9,836,219 | 12,433,762 |
|---------------|-----------|------------|

##### Reconciliation of provision for impairment of financial assets at amortised cost

#### Housing and Erven selling scheme

|                          |                  |                  |
|--------------------------|------------------|------------------|
| Opening balance          | 9,860,204        | 9,709,376        |
| Provision for impairment | (23,985)         | 150,828          |
|                          | <b>9,836,219</b> | <b>9,860,204</b> |

#### Cricket Stadium

|                          |             |                  |
|--------------------------|-------------|------------------|
| Opening balance          | 2,573,558   | 4,545,462        |
| Provision for impairment | (2,573,558) | (1,971,904)      |
|                          | <b>-</b>    | <b>2,573,558</b> |

The maximum exposure to credit risk at the reporting date is the fair value of each class of loan mentioned above. The municipality does not hold any collateral as security.

#### Renegotiated terms:

None of the financial assets that are fully performing have been renegotiated in the last year.

Fair value of the other financial assets approximates the carrying value at year end.

Prior year figures were restated due to errors identified in the current financial year, refer to note 70 .

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### 13. Non-current receivables (continued)

#### Financial assets pledged as security

None of the non-current receivables were pledged as security for any financial liability.

### 14. Living resources

|             | 2022             |                                                     |                | 2021             |                                                     |                |
|-------------|------------------|-----------------------------------------------------|----------------|------------------|-----------------------------------------------------|----------------|
|             | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Zoo animals | 5,526,065        | (1,850,264)                                         | 3,675,801      | 4,641,265        | (1,850,264)                                         | 2,791,001      |

#### Reconciliation of living resources - 2022

|             | Opening balance | Decrease due to death | Increase through non-exchange functions | Revaluation | Depreciation | Total     |
|-------------|-----------------|-----------------------|-----------------------------------------|-------------|--------------|-----------|
| Zoo animals | 2,791,001       | (104,848)             | 444,200                                 | 749,598     | (204,150)    | 3,675,801 |

#### Reconciliation of living resources - 2021

|             | Opening balance | Decrease due to death | Increase through non-exchange functions | Revaluation | Depreciation | Total     |
|-------------|-----------------|-----------------------|-----------------------------------------|-------------|--------------|-----------|
| Zoo animals | 2,724,001       | (437,327)             | 334,600                                 | 356,791     | (187,064)    | 2,791,001 |

#### Revaluations

##### Zoo animals

The effective date of the revaluation was 30 June 2022 . The revaluation was performed by Beryl Wilson (Zoologist & Conservation Biologist), an independent professionally qualified valuer, who holds a recognised professional qualification and has recent experience in valuations of zoo animals.

Currently the day-to-day costs of living resources are accounted for as operating costs as it is not capital of nature.

No research costs relating to living resources occurred.

None of the living resource assets are held for less than 12 months.

Currently the entity is not acting as a custodian for any living resources.

The average value of an animal in a family group was used and the following significant assumptions were applied by the expert, as per the valuation report obtained:

- Market availability
- Current market trends
- Conservation status
- Education and popularity value to the public
- Husbandry costs
- Health Management and disease risks
- Physical condition
- Age and gender
- Reproductive status

Prior year figures were restated due to a change in accounting policy in the current financial year, refer to note 70.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

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|----------------------------------------------------------------|------------------------|------------------------|
| <b>15. Deferred tax</b>                                        |                        |                        |
| <b>Deferred tax liability</b>                                  |                        |                        |
| Opening balance                                                | (1,383,924,798)        | (1,412,657,987)        |
| Property, plant and equipment                                  | 26,220,989             | 28,204,347             |
| Taxable temporary differences                                  | (367,726)              | 528,842                |
|                                                                | <b>(1,358,071,535)</b> | <b>(1,383,924,798)</b> |
| <b>Deferred tax asset</b>                                      |                        |                        |
| Opening balance                                                | 1,288,903,893          | 1,295,275,994          |
| Taxable temporary differences                                  | 16,369,644             | 8,065,629              |
| Tax losses available for set off against future taxable income | 37,504,088             | (14,437,730)           |
|                                                                | <b>1,342,777,625</b>   | <b>1,288,903,893</b>   |
| <b>Net deferred tax liability</b>                              |                        |                        |
| Deferred tax liability                                         | (1,358,071,535)        | (1,383,924,798)        |
| Deferred tax asset                                             | 1,342,777,625          | 1,288,903,893          |
|                                                                | <b>(15,293,910)</b>    | <b>(95,020,905)</b>    |
| <b>Reconciliation of deferred tax asset/(liability)</b>        |                        |                        |
| Opening balance                                                | (95,020,905)           | (117,381,993)          |
| Depreciable assets                                             | 26,220,989             | 28,204,347             |
| Finance lease                                                  | 34,514                 | 19,130                 |
| Provisions                                                     | 15,967,405             | 8,575,341              |
| Assessed loss                                                  | 37,504,087             | (14,437,730)           |
|                                                                | <b>(15,293,910)</b>    | <b>(95,020,905)</b>    |

### Recognition of deferred tax asset

An entity shall disclose the amount of a deferred tax asset and the nature of the evidence supporting its recognition, when:

- the utilisation of the deferred tax asset is dependent on future taxable surpluses in excess of the surpluses arising from the reversal of existing taxable temporary differences; and
- the municipality has suffered a deficit in either the current or preceding period in the tax jurisdiction to which the deferred tax asset relates.

The deferred tax asset arose as a result of the municipal entity not having been subject to income tax in the past. However in the 2014/15 financial year the municipal entity had to account for income tax which resulted in the wear and tear allowances being in excess of the available surplus. The municipal entity has the ability to generate profit in the foreseeable future against which temporary differences will be utilised.

### Deferred tax assumptions

As at 30 June 2016 no guidance was received from SARS on the transition from a tax-exempt entity to a taxable entity. Due to this, uncertainties in the calculation of the municipal entity's taxation exist and will continue to exist going forward until a pronouncement is made by SARS on the municipal entity's tax calculation. In the absence of a pronouncement from SARS and the fact that the municipal entity is no longer tax exempt, the municipal entity had to make certain key assumptions relating to income- and deferred tax to be able to account for tax.

**These assumptions are set out as follows:**

#### Infrastructure assets

The base cost for the electrical infrastructure assets of the municipal entity was determined by using the audited infrastructure fixed asset register. The tax exemption for the municipal entity was no longer applicable as at the 1 July 2014, on this date the municipal entity embarked on an exercise to determine the base cost for each of the Infrastructure assets. The closing balance for the 2013/2014 financial year was deemed as the most accurate value to be used as the base cost and carrying values for tax purposes moving forward. Up until 1 July 2014 management had never claimed any wear & tear on infrastructure assets. The base cost was therefore the deemed cost as at 1 July 2014.

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### 15. Deferred tax (continued)

Infrastructure assets of the municipal entity are all carried on the revaluation model as per GRAP 17 - Property plant and equipment. There is no General Recognised Accounting Standards standard applicable to taxation, therefore the municipal entity referred to the international accounting standards (IAS) for further guidance, which is IAS 12: Income taxation. Through inspection of the income tax act and the practice notes it was noted that there was no clear guidance regarding the write off periods for electrical infrastructure assets. Due to this Section 12D of the income tax act was deemed as the best alternative to use to determine the write off periods for most of the electrical infrastructure assets. Section 12D was applied to the following electrical infrastructure assets: High Voltage conductors, Medium Voltage conductors, Low Voltage conductors and the Streetlights. All other categories of infrastructure assets could operate independent of transmission lines and Section 12D would not be applicable to these assets.

As per the Income Tax Act, 1962 (Act 58 of 1962) the kind of information that could be useful in determining the expected useful life of an asset/write off period include:

- Independent engineering information;
- The taxpayer's own past experience with similar assets;

Based on the above and due to insufficient guidance in the Income Tax Act, 1962 (Act 58 of 1962) the option of best professional judgment in determining an accurate write off period for the Infrastructure assets was used as follows:

- For all the distribution lines and cables a 5% write off period was used; and
- For all other infrastructure assets a 5 year write off period was adopted as the assets have been in operation for some time and as per the engineering information, they cannot fall within Section 12D of the Income Tax Act, 1962 (Act 58 of 1962).

Section 12 of the Income Tax Act, 1962 (Act 58 of 1962) was applied therefore no apportionment of the wear and tear was done. The wear and tear of assets is the amount that the South African Receiver of Revenue considers an appropriate write off timeframe for each asset.

The wear and tear was calculated as follows:

- The depreciated replacement cost was taken per asset and any addition for the year was added and this value was multiplied by 20%; and
- When an asset is disposed of during the financial year wear and tear is still calculated for that asset and an inspection for a possible recoupment is done.

### Non-Infrastructure assets

All assets other than infrastructure assets were written off by making use of Practice note 19.

### Debt impairment

The provision for debt impairment is limited as a tax deduction to the extent that the originating revenue was taxable. Since the municipal entity was tax exempt for a period the revenue recognised and subsequently impaired during this period could not fully be included as a tax deduction. Due to this only the movement in the debt impairment for the year when the municipal entity first became taxable was used in calculating the tax.

### 16. Payables from exchange transactions

|                                                                          |                      |                      |
|--------------------------------------------------------------------------|----------------------|----------------------|
| Accrued bonus                                                            | 44,666,528           | 49,932,748           |
| Accrued leave pay                                                        | 283,969,987          | 304,113,894          |
| Claims - Unfair dismissal                                                | 4,879,817            | 4,879,817            |
| Other creditors                                                          | 26,000               | 26,000               |
| Other payables - Grants                                                  | 979,450              | 979,450              |
| Other payables - Salary related                                          | 97,668,946           | 85,984,948           |
| Retentions                                                               | 134,643,500          | 116,001,998          |
| Trade payables                                                           | 1,046,251,039        | 736,073,053          |
| Deferred revenue                                                         | 17,431,959           | 20,292,339           |
| Operating expense accrual                                                | 4,435,279            | 4,820,553            |
| Electricity connections                                                  | 18,666,875           | 22,006,417           |
| Mantsopa Local Municipality                                              | 145,975              | 5,717,102            |
| Unallocated electricity consumer and vendor payments received in advance | 47,936,926           | 59,379,245           |
| Bulk water purchases                                                     | 690,166,388          | 765,321,780          |
|                                                                          | <b>2,391,868,669</b> | <b>2,175,529,344</b> |

The entity defaulted on the payment of suppliers within 30 days. The average term of payment of suppliers for the year was 165 days (2021: 162 days).

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

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### 17. Payables from non-exchange transactions

|                              |                    |                    |
|------------------------------|--------------------|--------------------|
| Deposits                     | 918,008            | 938,850            |
| Other payables               | 1,737,395          | 2,207,711          |
| Payments received in advance | 305,099,836        | 333,477,571        |
|                              | <b>307,755,239</b> | <b>336,624,132</b> |

### 18. VAT payable

|             |            |            |
|-------------|------------|------------|
| VAT payable | 62,626,296 | 91,574,156 |
|-------------|------------|------------|

VAT is payable on the payment basis. VAT is paid over to SARS only once payment is received from debtors.

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

#### Statutory payables included in VAT payables above are as follows:

|             |            |            |
|-------------|------------|------------|
| VAT payable | 62,626,296 | 91,574,156 |
|-------------|------------|------------|

#### Statutory receivables general information:

Revenue type - Not applicable.

Legislation that gives rise to the transactions - Value Added Tax Act 89 of 1991.

Rates and interest charges - The Act determines rates and interest is charge.

Impairment consideration - No impairment, balance expected to be fully recoverable.

#### Interest or other charges levied/charged:

No VAT payables generated interest income and no other levies were charged.

#### Statutory receivables impaired:

VAT payables included in statutory receivables are not impaired nor considered for impairment, balance expected to be fully recoverable.

### 19. Consumer deposits

|                |                    |                    |
|----------------|--------------------|--------------------|
| Electricity    | 130,373,809        | 127,042,880        |
| Water deposits | 33,839,791         | 33,351,036         |
|                | <b>164,213,600</b> | <b>160,393,916</b> |

Guarantees in lieu of water consumer deposits amounted to R 2,892,133 (2021: R 2,594,386), vendor deposits amounted to R 11,118,891 (2021: R 12,168,891) and electricity consumer deposits amounted to R 38,011,705 (2021: R37,329,195).

During the current financial year it was identified that additional guarantees in lieu of vendor deposits to the value of R10 015 000 existed during the 2020-21 financial year but was not disclosed as part of the 2020-21 guarantees in lieu of vendor deposits disclosure. The comparative value for the 2020-21 financial year was adjusted from R2,153,891 to R12,168,891 to correct this prior period error.

Consumer deposits are paid by consumers on application for new connections. The deposits are repaid when the connections are terminated. In cases where consumers default on their accounts, the municipality can utilise the deposit as payment for the outstanding account. No interest is paid on consumer deposits held.

Fair value approximates the carrying value of the vendor deposits.

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### 20. Unspent conditional grants and receipts

Unspent conditional grants and receipts comprises of:

#### Unspent conditional grants and receipts

|                                                                |                    |                   |
|----------------------------------------------------------------|--------------------|-------------------|
| City of Ghent - Youth Development Grant                        | 481,950            | 481,950           |
| Department of Telecoms and Postal Services Grant               | -                  | 1,133,554         |
| Expanded Public Work Programme Integrated Grant                | 14,136             | 364,394           |
| Finance Management Grant                                       | 104,467            | 3,186             |
| Human Settlements Provincial Grant                             | 53,746,060         | -                 |
| Informal Settlements Upgrading Partnership Grant               | 132,207,474        | -                 |
| Integrated City Development Grant                              | -                  | 3,714,313         |
| Local Government Sector Education and Training Authority Grant | 5,299,588          | 2,228,830         |
| Municipal Human Settlements Capacity Grant                     | 2,000,000          | 2,000,000         |
| Municipal Systems Improvement Grant                            | 1,055,000          | 1,055,000         |
| Neighbourhood Development Partnership Grant                    | 4,214,789          | 1,142,169         |
| Programme and Project Preparation Support Grant                | 1,454,500          | -                 |
| Public Transport Network Grant                                 | 92,786,580         | -                 |
| Sports, Arts and Culture - Admin Libraries Grant               | 5,320,906          | 4,692,787         |
| Sustainable Human Settlements Grant                            | -                  | 1,595,782         |
| Urban Settlements Development Grant                            | 272,353,593        | 17,250,742        |
|                                                                | <b>571,039,043</b> | <b>35,662,707</b> |

#### Movement during the year

|                                         |                    |                   |
|-----------------------------------------|--------------------|-------------------|
| Balance at the beginning of the year    | 35,662,707         | 436,229,060       |
| Surrendered to National Treasury        | (18,379,000)       | (183,963,000)     |
| Current year receipts                   | 2,637,296,759      | 1,823,839,829     |
| Conditions met - transferred to revenue | (2,080,812,087)    | (2,040,443,182)   |
| Transferred to other income             | (2,729,336)        | -                 |
|                                         | <b>571,039,043</b> | <b>35,662,707</b> |

See note 41 for reconciliation of grants from National and Provincial Government.

### 21. Finance lease obligation

#### Minimum lease payments due

|                                                |                   |                   |
|------------------------------------------------|-------------------|-------------------|
| - within one year                              | 14,725,128        | 40,288,770        |
| - in second to fifth year inclusive            | 1,566,823         | 18,505,880        |
|                                                | <b>16,291,951</b> | <b>58,794,650</b> |
| less: future finance charges                   | (695,911)         | (3,429,132)       |
| <b>Present value of minimum lease payments</b> | <b>15,596,040</b> | <b>55,365,518</b> |

#### Present value of minimum lease payments due

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| - within one year                   | 14,084,861        | 40,034,878        |
| - in second to fifth year inclusive | 1,511,179         | 15,330,640        |
|                                     | <b>15,596,040</b> | <b>55,365,518</b> |

|                         |                   |                   |
|-------------------------|-------------------|-------------------|
| Non-current liabilities | 1,511,179         | 41,721,077        |
| Current liabilities     | 14,084,861        | 13,644,441        |
|                         | <b>15,596,040</b> | <b>55,365,518</b> |

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### 21. Finance lease obligation (continued)

#### Mangaung Metropolitan Municipality:

The entity leases various equipment and vehicles under finance leases.

The average lease term is between 2 to 5 years and the average borrowing rate is between 9% and 15%. Leases are not renewed automatically upon expiry, unless otherwise instructed by the entity.

No arrangements have been entered into for contingent rent.

The entity did not default on any of the finance lease obligations, whether it be on the capital or interest portion.

None of the terms attached to the existing finance lease obligations were renegotiated.

The municipality's obligations under finance leases are secured by the lessor's charge over the leased assets. Refer Note 10 for further detail.

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

#### Centlec (SOC) Ltd:

It is the municipal entity's policy to lease certain photo copier machines under finance leases. The average lease term is 3 years and the average effective borrowing rate was 9.25%. Initial lease payments varied between R6,442 and R8,647 per month and are subject to prime lending rates.

Lease liabilities are effectively secured as the rights to the leased asset revert to the lessor in the event of default.

### 22. Borrowings

#### At amortised cost

|                                                |                    |                    |
|------------------------------------------------|--------------------|--------------------|
| ABSA                                           | 286,803,839        | 334,959,259        |
| Nr: 23135 - redeemable on 30 October 2026      |                    |                    |
| DBSA                                           | 80,699,242         | 92,655,688         |
| Nr: 103433/01 - redeemable on 29 January 2027  |                    |                    |
| DBSA                                           | 21,310,187         | 25,069,491         |
| Nr: 103433/02 - redeemable on 29 January 2027  |                    |                    |
| DBSA                                           | 150,175,483        | 183,980,124        |
| Nr: 61007294 - Redeemable on 30 June 2025      |                    |                    |
| Standard Bank                                  | 129,906,081        | 139,766,412        |
| Nr: 041303636 - Redeemable on 30 December 2024 |                    |                    |
|                                                | <b>668,894,832</b> | <b>776,430,974</b> |
| <b>Total other financial liabilities</b>       | <b>668,894,832</b> | <b>776,430,974</b> |

These loans are from ABSA, The Development Bank of South Africa and Standard Bank of South Africa Limited. Repayments are made either monthly or on a six-monthly basis. The final loan will be redeemed on 29 January 2027 and the loans bear interest between 6% and 14%.

#### Non-current liabilities

|                   |             |             |
|-------------------|-------------|-------------|
| At amortised cost | 470,121,326 | 616,971,668 |
|-------------------|-------------|-------------|

#### Current liabilities

|                   |             |             |
|-------------------|-------------|-------------|
| At amortised cost | 198,773,506 | 159,459,306 |
|-------------------|-------------|-------------|

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### 22. Borrowings (continued)

#### Defaults and breaches

The municipality defaulted on the following borrowings during the current and prior year:

#### Loans payable including capital and interest

##### Details of loans in default (payable by 30 June each year)

|               |             |             |
|---------------|-------------|-------------|
| DBSA          | 80,699,242  | 92,655,688  |
| Nr: 103433/01 |             |             |
| DBSA          | 21,310,187  | 25,069,492  |
| Nr: 103433/02 |             |             |
| DBSA          | 150,175,483 | 183,980,125 |
| Nr: 61007294  |             |             |
| Standard Bank | 129,906,081 | 139,766,412 |
| Nr: 041303636 |             |             |

|                                                                               |                    |                    |
|-------------------------------------------------------------------------------|--------------------|--------------------|
| <b>Carrying amount of loans payable in default at end of reporting period</b> | <b>382,090,993</b> | <b>441,471,717</b> |
|-------------------------------------------------------------------------------|--------------------|--------------------|

All the defaults on the above borrowings were remedied through payment of the accrued capital and interest amounts on the 8th of July 2021 and the 8th of July 2022 respectively.

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

# Mangaung Metropolitan Municipality

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### 23. Provisions

|                                  |                    |                    |
|----------------------------------|--------------------|--------------------|
| Rehabilitation of landfill sites | 207,149,262        | 157,876,614        |
| Rehabilitation of quarry sites   | 520,287,727        | 523,500,600        |
|                                  | <b>727,436,989</b> | <b>681,377,214</b> |

#### Reconciliation of provisions - 2022

|                                  | Opening Balance    | Unwinding         | Fair value adjustment | Total              |
|----------------------------------|--------------------|-------------------|-----------------------|--------------------|
| Rehabilitation of landfill sites | 157,876,614        | 16,690,940        | 32,581,708            | 207,149,262        |
| Rehabilitation of quarry sites   | 523,500,600        | 55,345,228        | (58,558,101)          | 520,287,727        |
|                                  | <b>681,377,214</b> | <b>72,036,168</b> | <b>(25,976,393)</b>   | <b>727,436,989</b> |

#### Reconciliation of provisions - 2021

|                                  | Opening Balance    | Unwinding         | Fair value adjustment | Total              |
|----------------------------------|--------------------|-------------------|-----------------------|--------------------|
| Rehabilitation of landfill sites | 96,010,327         | 10,151,623        | 51,714,664            | 157,876,614        |
| Rehabilitation of quarry sites   | 479,112,848        | 21,849,885        | 22,537,867            | 523,500,600        |
|                                  | <b>575,123,175</b> | <b>32,001,508</b> | <b>74,252,531</b>     | <b>681,377,214</b> |

|                         |                    |                    |
|-------------------------|--------------------|--------------------|
| Non-current liabilities | 628,688,755        | 64,716,945         |
| Current liabilities     | 98,748,234         | 616,660,269        |
|                         | <b>727,436,989</b> | <b>681,377,214</b> |

#### Rehabilitation of landfill sites

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites to a condition whereby it complies to the permit requirements issued in terms of the Mineral and Petroleum Resources Development Act, (Act 28 of 2002).

Management has included the best estimated amount as the actual amount is uncertain. The payment of total closure and rehabilitation dates are uncertain.

The provision was determined by an independent expert for the rehabilitation cost in 2022 and then approximated the expected future cash flows using reasonable estimation techniques.

#### Landfill sites consists of: Restoration date:

|                                     |      |
|-------------------------------------|------|
| Botshabelo Landfill Site            | 2115 |
| Northern Landfill Site              | 2021 |
| Southern Landfill Site              | 2036 |
| Van Stadensrus Landfill Site        | 2035 |
| Wepener Landfill Site               | 2032 |
| Dewetsdorp                          | 2028 |
| Soutpan / Ikgomotseng Landfill site | 2032 |

The final restoration of landfill sites are expected to be in the year listed above, being the estimated useful lives of landfill sites. The certainty and the timing of the outflow of these liabilities is uncertain and the amounts disclosed are the possible outflow amounts.

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### 23. Provisions (continued)

#### Rehabilitation of quarry sites

The provision for rehabilitation of quarry sites relates to the legal obligation to rehabilitate quarry sites to a condition whereby it complies to the permit requirements issued in terms of the Mineral and Petroleum Resources Development Act, (Act 28 of 2002).

The provision was determined by an independent expert for the rehabilitation cost in 2022 and then approximated the expected future cash flows using reasonable estimation techniques.

| Quarries consists of:      | Restoration date: | Quarries consists of:    | Restoration date: |
|----------------------------|-------------------|--------------------------|-------------------|
| <b><u>Bloemfontein</u></b> |                   | <b><u>Thaba Nchu</u></b> |                   |
| Cecelia                    | 2025              | Seroala                  | 2025              |
| Sunnyside                  | 2025              | Thubisi                  | 2025              |
| Kgotsong                   | 2025              | Putsane                  | 2025              |
| Ipopeng                    | 2025              | Merino                   | 2025              |
| Chris Hani                 | 2025              | Rhakoi                   | 2025              |
| Caleb Motsoabi             | 2025              | Sediba                   | 2025              |
| N1                         | 2025              | Rooibult                 | 2025              |
|                            |                   | Kgalala                  | 2025              |
| <b><u>Botshabelo</u></b>   |                   | Baraclava 1              | 2025              |
| K-Section                  | 2025              | Baraclava                | 2025              |
| F1-Section                 | 2025              | Bultfontein 3            | 2025              |
| F2.1-Section               | 2025              | Modutung                 | 2025              |
| F2.2-Section               | 2025              | Talla                    | 2025              |
| W-Section                  | 2025              | Nogas Post               | 2025              |
| S-Section                  | 2025              |                          |                   |
| B-Section                  | 2025              |                          |                   |

The final restoration of quarry sites are expected to be in the year listed above, being the estimated useful lives of quarry sites. The certainty and the timing of the outflow of these liabilities are uncertain and the amounts disclosed are the possible outflow amounts.

#### Discount rate assumptions

The key assumptions used in the valuation, with prior year's assumptions shown for comparison, are summarised as follows:

|                |        |        |
|----------------|--------|--------|
| Inflation rate | 7.41%  | 5.07%  |
| Risk-free rate | 10.56% | 10.57% |

The inflation rate was derived from the yearly inflation rate for the relevant financial year.

The weighted-average cost of debt of the municipality was determined to be the most appropriate discount rate as it represents the risk of the liability.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

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### 24. Employee benefit obligations

|                                                          |                    |                    |
|----------------------------------------------------------|--------------------|--------------------|
| Present value of the Long service award benefit          | 134,672,001        | 141,525,001        |
| Present value of the Pension fund benefit                | 1,753,000          | 2,015,000          |
| Present value of the Post-employment medical aid benefit | 477,084,000        | 465,105,000        |
|                                                          | <b>613,509,001</b> | <b>608,645,001</b> |

#### Defined benefit plan

The defined benefit liability as disclosed below is represented by three different post-employment benefits. None of the benefits set out below are externally funded.

#### Post-retirement medical aid plan

Active members receive a fixed subsidy of 60% of medical aid contributions during the current working year, up to a specified maximum employer contribution. The spouse or adult dependant of an active member is entitled to a 60% subsidy of their contributions. This proportion of the subsidy will continue to be paid in the event of the principal member's death.

Continuation members receive a fixed subsidy of 60% of medical aid contributions during the current working year, up to a specified maximum employer contribution. The spouse or adult dependant of a continuation member is entitled to a 60% subsidy of their contributions.

#### Pension benefits

Pension gratuities are payable to retired employees and pensioners who were in service of the council on or before 1 October 1981, who did not qualify to be members of the Free State Joint Municipal Pension Fund or Free State Local Government Pension Fund, or who were not members of a pension fund by this date, with 20 years of uninterrupted service and a minimum retirement age of 60 years have been obtained.

#### Long service awards

Long service awards are payable to qualifying in-service employees. The leave benefits are in accordance with paragraph 11 of the South African Local Government Bargaining Council (SALGBC) collective agreement on conditions of service for the Free State division of SALGBC.

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

#### Carrying value of the defined benefit obligation

|                         |                    |                    |
|-------------------------|--------------------|--------------------|
| Opening balance         | 608,645,000        | 523,524,629        |
| Interest cost           | 58,849,000         | 50,324,990         |
| Current service cost    | 29,801,000         | 25,019,000         |
| Benefits paid           | (37,120,897)       | (29,543,615)       |
| Actuarial (gain)/loss   | (46,665,102)       | 39,319,996         |
|                         | <b>613,509,001</b> | <b>608,645,000</b> |
| Non-current liabilities | 579,013,001        | 571,435,000        |
| Current liabilities     | 34,496,000         | 37,210,000         |
|                         | <b>613,509,001</b> | <b>608,645,000</b> |

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

|                       |                   |                    |
|-----------------------|-------------------|--------------------|
| Interest cost         | 58,849,000        | 50,324,990         |
| Current service cost  | 29,801,000        | 25,019,000         |
| Actuarial (gain)/loss | (46,665,102)      | 39,319,996         |
|                       | <b>41,984,898</b> | <b>114,663,986</b> |

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Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

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|-----------------|------|------|

### 24. Employee benefit obligations (continued)

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

| 2022                  | Pension fund     | Medical aid        | Long service award | Total              |
|-----------------------|------------------|--------------------|--------------------|--------------------|
| Opening balance       | 2,015,000        | 465,105,000        | 141,525,001        | 608,645,001        |
| Interest cost         | 148,000          | 46,821,000         | 11,880,000         | 58,849,000         |
| Current service cost  | -                | 18,058,000         | 11,743,000         | 29,801,000         |
| Benefits paid         | (271,000)        | (14,304,000)       | (22,545,898)       | (37,120,898)       |
| Actuarial (gain)/loss | (139,000)        | (38,596,000)       | (7,930,102)        | (46,665,102)       |
|                       | <b>1,753,000</b> | <b>477,084,000</b> | <b>134,672,001</b> | <b>613,509,001</b> |

| 2021                  | Pension fund     | Medical aid        | Long service award | Total              |
|-----------------------|------------------|--------------------|--------------------|--------------------|
| Opening balance       | 1,991,629        | 392,294,000        | 129,239,000        | 523,524,629        |
| Interest cost         | 101,990          | 40,619,000         | 9,604,000          | 50,324,990         |
| Current service cost  | -                | 13,519,000         | 11,500,000         | 25,019,000         |
| Benefits paid         | (257,604)        | (14,184,000)       | (15,102,011)       | (29,543,615)       |
| Actuarial (gain)/loss | 178,985          | 32,857,000         | 6,284,012          | 39,319,997         |
|                       | <b>2,015,000</b> | <b>465,105,000</b> | <b>141,525,001</b> | <b>608,645,001</b> |

#### Key assumptions used

Assumptions used at the reporting date:

|                                                               |          |          |
|---------------------------------------------------------------|----------|----------|
| Discount rate - Pension Fund                                  | 9.85 %   | 7.87 %   |
| Discount rate - Medical Aid                                   | 11.82 %  | 10.22 %  |
| Discount rate - Long Service Award                            | 10.50 %  | 8.60 %   |
| Health care cost inflation rate                               | 8.43 %   | 6.89 %   |
| Maximum subsidy inflation rate                                | 5.95 %   | 4.79 %   |
| General earnings inflation rate (Mangaung Metro Municipality) | 7.24 %   | 5.60 %   |
| General earnings inflation rate (Centlec SOC (Ltd))           | 6.25 %   | 6.25 %   |
| Pension fund inflation rate                                   | 6.11 %   | 4.25 %   |
| Expected retirement age (years) (Mangaung Metro Municipality) | 62 years | 62 years |
| Expected retirement age (years) (Centlec SOC (Ltd))           | 63 years | 63 years |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

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### 24. Employee benefit obligations (continued)

#### Pension fund assumptions

##### Pension fund discount rate:

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

Consequently, a discount rate of 9.85% (2021: 7.87%) per annum has been used. The corresponding index-linked yield at this term is 3.05%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2022.

##### Pension fund inflation rate:

This assumption is required to reflect estimated future changes to pensions. The expected CPI inflation assumption of 6.11% (2021:4.25%) was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (3.05%) and those of fixed interest bonds (9.85%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows:  $((1+9.85\%-0.50\%)/(1+3.05\%))-1$ . Therefore, a pension inflation rate of 6.11% has been assumed i.e. 100% of expected CPI inflation. This implies a net discount rate of 3.52%, which derives from  $((1+9.85\%)/(1+6.11\%))-1$ .

#### Medical aid assumptions

##### Medical aid discount rate:

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

Consequently, a discount rate of 11.82% (2021:10.22%) per annum has been used. The corresponding index-linked yield at this term is 4.10%. These rates do not reflect any adjustment for taxation. These rates were deduced from the interest rate data obtained from the Johannesburg Stock Exchange after the market close on 30 June 2022.

##### Health care cost inflation rate:

This assumption is required to reflect estimated future changes in the cost of medical services, resulting from both inflation and specific changes in medical costs (for example, due to technological advances or changes in utilisation patterns). Any assumption regarding future medical scheme contribution increases is therefore subjective.

A health care cost inflation rate of 8.43% (2021: 6.89%) has been assumed. This is 1.50% in excess of expected CPI inflation over the expected term of the liability, namely 6.93%. A larger differential would be unsustainable, eventually forcing members to less expensive options. This implies a net discount rate of 3.13% which derives from  $((1+11.82\%)/(1+8.43\%))-1$ .

The expected inflation assumption of 6.93% was obtained from the differential between market yields on index-linked bonds consistent with the estimated term of the liabilities (4.10%) and those of fixed interest bonds (11.82%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). This was therefore determined as follows:  $((1+11.82\%-0.50\%)/(1+4.10\%))-1$ .

##### Maximum subsidy inflation rate:

This assumption is required to reflect estimated future changes in the maximum amount to which subsidies are limited. This maximum amount is set at R 5,007.00 per family per month for the year ending 30 June 2023. The annual increases to this maximum amount are periodically specified by the local government bargaining council.

Recent past annual increases balanced with sustainability needs of employees have resulted in this assumption being set at 75% of salary inflation. The future salary inflation assumption of 7.93%, was set to be 1.00% above expected CPI inflation. Thus, a maximum subsidy inflation assumption of 5.95% per annum was used.

#### Long service award assumptions

##### Discount rate (Mangaung Metro Municipality):

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

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### 24. Employee benefit obligations (continued)

Consequently, a discount rate of 10.50% per annum has been used. The corresponding liability-weighted index-linked yield is 3.54%. These rates do not reflect any adjustment for taxation, and were deduced from the interest rate data obtained from the JSE after the market close on 30 June 2022.

#### Discount rate (Centlec SOC (Ltd)):

GRAP 25 defines the determination of the discount rate assumption to be used as follows:

"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."

In accordance with the above, the nominal and real zero curves as at 30 June 2022 supplied by the JSE was used to determine the discounted rates and CPI assumptions at each relevant time period.

#### General earnings inflation rate (Mangaung Metro Municipality):

This assumption is more stable relative to the growth in Consumer Price Index (CPI) than in absolute terms. In most industries, experience has shown, that over the long-term, earnings inflation is between 1.0% and 1.5% above CPI inflation.

The expected CPI inflation assumption of 6.24% was obtained from the differential between market yields on index-linked bonds (3.54%) consistent with the estimated terms of the liabilities and those of nominal bonds (10.50%) with a risk premium adjustment for the uncertainty implicit in guaranteeing real increases (0.50%). Therefore, expected inflation is determined as  $((1+10.50\%-0.50\%)/(1+3.54\%))-1$ .

Thus, a general earnings inflation rate of 7.24% per annum over the expected term of the liability has been assumed, which is 1.00% higher than the estimate of CPI inflation over the same term. This assumption reflects a net discount rate of 3.04%.

#### Normal salary inflation/increase rate (Centlec SOC (Ltd)):

The underlying future rate of consumer price index inflation (CPI inflation) was derived from the relationship between the (yield curve based) Conventional Bond Rate for each relevant time period and the (yield curve based) Inflation-linked Bond rate for each relevant time period. The assumed rate of salary inflation was set as the assumed value of CPI plus 1%. The salaries used in the valuation include an assumed increase on 01 July 2022 of 6.25%. The next salary increase was assumed to take place on 01 July 2023.

#### Withdrawal rate assumptions:

In the absence of credible past withdrawal data for these particular schemes, the withdrawal assumptions have been set in line with those generally observed in the South African market.

The withdrawal rates vary from 3% to 9% for the age group 20 - 50 years, while the estimated withdrawal rate from 55 years is calculated at 0%.

#### Other information:

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

#### Other assumptions

The effect of one percentage point increase/ decrease in the rates of the main assumptions is as follows for the 2022 financial year:

|                                                                                                                 | 1% increase | 1% decrease |
|-----------------------------------------------------------------------------------------------------------------|-------------|-------------|
| Unfunded Accrued Liability (Pension fund inflation rate)                                                        | 1,848,000   | 1,666,000   |
| Aggregate of current service and interest costs (Pension fund inflation rate)                                   | 157,000     | 140,000     |
| Unfunded Accrued Liability (Pension fund discount rate)                                                         | 1,666,000   | 1,850,000   |
| Aggregate of current service and interest costs (Pension fund discount rate)                                    | 157,000     | 138,000     |
| Unfunded Accrued Liability (Health care cost inflation rate)                                                    | 512,665,000 | 433,655,000 |
| Aggregate of current service and interest costs (Health care cost inflation rate)                               | 71,076,000  | 57,526,000  |
| Unfunded Accrued Liability (Medical aid discount rate)                                                          | 418,573,000 | 549,518,000 |
| Aggregate of current service and interest costs (Medical aid discount rate)                                     | 59,902,000  | 70,864,000  |
| Unfunded Accrued Liability (General earnings inflation rate)                                                    | 112,299,000 | 102,106,000 |
| Aggregate of current service and interest costs (General earnings inflation rate)                               | 19,337,000  | 17,266,000  |
| Unfunded Accrued Liability (Long service award discount rate) - Mangaung Metro Municipality                     | 101,862,000 | 112,659,000 |
| Aggregate of current service and interest costs (Long service award discount rate)- Mangaung Metro Municipality | 18,300,000  | 18,196,000  |
| Unfunded Accrued Liability (Long service award discount rate) - Centlec SOC (Ltd)                               | 29,366,000  | 26,132,000  |
| Aggregate of current service and interest costs (Long service award discount rate)- Centlec SOC (Ltd)           | 6,475,000   | 5,716,000   |

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| <b>24. Employee benefit obligations (continued)</b>                    |             |             |             |             |             |
| <b>Amounts for the current and previous four years are as follows:</b> |             |             |             |             |             |
|                                                                        | <b>2022</b> | <b>2021</b> | <b>2020</b> | <b>2019</b> | <b>2018</b> |
| Defined benefit obligation                                             | 613,509,001 | 608,645,000 | 523,524,629 | 559,097,163 | 740,373,000 |

### 25. FRESHCO

|                                             |             |             |
|---------------------------------------------|-------------|-------------|
| FRESHCO (Free State Social Housing Company) | 149,520,237 | 163,648,133 |
|---------------------------------------------|-------------|-------------|

The entity has entered into an agreement with the Free State Social Housing Company (FRESHCO), a section 21 company, to implement and pursue a programme of Social Housing suitable for low to medium income households.

The agreement commenced on 1 February 2010 and shall be terminated on 31 January 2033 unless both parties agree to extend the agreement period. The entity charges FRESHCO a nominal rental amount on a monthly basis which escalates by 5% annually. The rental amount is included in note 33 – (Rental of facilities and equipment).

In terms of the agreement, FRESHCO will refurbish and maintain 351 existing municipal flats and build 592 additional flats in the suburb called Brandwag. This will remain the property of the entity. The entity will provide municipal infrastructure where these are not currently in existence.

FRESHCO will utilise a portion of the rental income earned from renting out these properties to maintain and refurbish these flats.

The amount is recognised as revenue over the period of the agreement upon completion of the assets.

There were no changes in the service concession arrangement that occurred during the current financial year.

There were no breaches in contract by either party involved in the service concession arrangement during the current financial year.

### 26. Land availability

|               |             |             |
|---------------|-------------|-------------|
| Hillside view | 267,561,408 | 282,670,558 |
|---------------|-------------|-------------|

The entity has entered into agreements with developers to implement and pursue a programme of land development which will provide infrastructure and housing suitable for low to medium income households.

#### Hillside view:

The agreement commenced on 10 July 2014 and shall be terminated on 31 October 2032, unless both parties agree to extend the agreement period. In terms of the agreement, the developer will develop 762 erven in Mangaung Extension 34, and 1580 erven in Mangaung Extension 35.

This development will be known as the Hillside View.

The land shall remain the property of the entity throughout the development. Upon completion of development, the entity shall retain 30% of the single residential erven within the development, as well as the infrastructure services. The developer shall be entitled to sell the remaining developed and serviced erven to third parties, and will retain the proceeds of these sales as compensation for the developed assets retained by the entity.

The developer shall contribute to the bulk infrastructure installations within the development and shall provide a contribution for the land, upon sale to the third parties.

The revenue from these sales will be recognised upon transfer to the third party, and the related liability shall be derecognised.

The buildings retained by the entity shall be capitalised throughout the development process.

There were no changes in the service concession arrangement that occurred during the current financial year. There were no breaches in contract by either party involved in the service concession arrangement during the current financial year.

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### 26. Land availability (continued)

#### Vista Park III:

The agreement commenced on 11 September 2014 and shall be terminated on 31 October 2032, unless both parties agree to extend the agreement period. In terms of the agreement, the developer will develop approximately 6529 erven of various categories in Mangaung Extension 256 to 266. This development will be known as the Vista Park III.

The land shall remain the property of the entity throughout the development. Upon completion of development, the entity shall retain 30% of the single residential erven within the development, as well as the infrastructure services. The developer shall be entitled to sell the remaining developed and serviced erven to third parties, and will retain the proceeds of these sales as compensation for the developed assets retained by the entity.

The developer shall contribute to the bulk infrastructure installations within the development and shall provide a contribution for the land, upon sale to the third parties.

The revenue from these sales will be recognised upon transfer to the third party, and the related liability shall be derecognised.

The buildings retained by the municipality shall be capitalised throughout the development process.

There were no changes in the service concession arrangement that occurred during the current financial year. There were no breaches in contract by either party involved in the service concession arrangement during the current financial year.

As at the end of the current financial year, all costs were incurred by the municipality. The municipality thus it has no liability for the development to date.

### 27. Revaluation reserve

|                                                           |                      |                      |
|-----------------------------------------------------------|----------------------|----------------------|
| Opening balance                                           | 4,989,275,243        | 5,010,628,553        |
| Revaluation of assets                                     | (5,134,749)          | (2,990,833)          |
| Realisation of revaluation reserve - through depreciation | (17,977,106)         | (18,362,477)         |
|                                                           | <b>4,966,163,388</b> | <b>4,989,275,243</b> |

There are no restrictions on the distribution of the revaluation reserve.

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

### 28. Self-insurance reserve

|                            |                   |                   |
|----------------------------|-------------------|-------------------|
| Opening balance            | 10,000,000        | 10,000,000        |
| Contributions received     | 1,110,570         | 354,267           |
| Insurance claims processed | (1,110,570)       | (354,267)         |
|                            | <b>10,000,000</b> | <b>10,000,000</b> |

### 29. COLD reserve

|                            |                   |                   |
|----------------------------|-------------------|-------------------|
| Opening balance            | 20,890,377        | 22,287,275        |
| Insurance claims processed | (1,750,392)       | (1,396,898)       |
|                            | <b>19,139,985</b> | <b>20,890,377</b> |

### 30. Other NDR

|                                               |            |            |
|-----------------------------------------------|------------|------------|
| Non-distributable reserve beginning of period | 60,000,000 | 60,000,000 |
|-----------------------------------------------|------------|------------|

In accordance with the terms of the NERSA (National Energy Regulator of South Africa) agreement, it was agreed that R 60,000,000 is to be held as a non-distributable reserve.

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### 31. Revenue

|                                                  |                      |                      |
|--------------------------------------------------|----------------------|----------------------|
| Service charges                                  | 4,328,743,177        | 4,026,663,848        |
| Rental of facilities and equipment               | 49,216,654           | 48,546,578           |
| Agency services                                  | 5,942,316            | 6,444,060            |
| Other income from exchange transactions          | 102,137,323          | 87,630,650           |
| Interest received from exchange transactions     | 297,882,227          | 216,509,311          |
| Dividends received                               | 2,656                | 2,248                |
| Property rates                                   | 1,387,795,158        | 1,190,390,992        |
| Interest received from non-exchange transactions | 73,192,006           | 40,713,151           |
| Government grants & subsidies                    | 2,080,812,087        | 2,040,443,181        |
| Public contributions and donations               | 2,900,907            | -                    |
| Fines, penalties and forfeits                    | 15,894,605           | 20,256,492           |
| Living resources                                 | 444,200              | 334,600              |
|                                                  | <b>8,344,963,316</b> | <b>7,677,935,111</b> |

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

|                                              |                      |                      |
|----------------------------------------------|----------------------|----------------------|
| Service charges                              | 4,328,743,177        | 4,026,663,848        |
| Rental of facilities and equipment           | 49,216,654           | 48,546,578           |
| Agency services                              | 5,942,316            | 6,444,060            |
| Other income from exchange transactions      | 102,137,323          | 87,630,650           |
| Interest received from exchange transactions | 297,882,227          | 216,509,311          |
| Dividends received                           | 2,656                | 2,248                |
|                                              | <b>4,783,924,353</b> | <b>4,385,796,695</b> |

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

|                                                  |                      |                      |
|--------------------------------------------------|----------------------|----------------------|
| <b>Taxation revenue</b>                          |                      |                      |
| Property rates                                   | 1,387,795,158        | 1,190,390,992        |
| Interest received from non-exchange transactions | 73,192,006           | 40,713,151           |
| Living resources                                 | 444,200              | 334,600              |
| <b>Transfer revenue</b>                          |                      |                      |
| Government grants & subsidies                    | 2,080,812,087        | 2,040,443,181        |
| Public contributions and donations               | 2,900,907            | -                    |
| Fines, penalties and forfeits                    | 15,894,605           | 20,256,492           |
|                                                  | <b>3,561,038,963</b> | <b>3,292,138,416</b> |

### 32. Service charges

|                                     |                      |                      |
|-------------------------------------|----------------------|----------------------|
| Sale of electricity - Prepaid       | 1,180,829,284        | 1,029,279,745        |
| Sale of electricity - Conventional  | 1,536,597,912        | 1,518,917,197        |
| Sale of water - Conventional meters | 991,022,072          | 930,136,856          |
| Sale of water - Prepaid meters      | 68,655,568           | 60,890,893           |
| Sewerage and sanitation charges     | 400,574,062          | 345,566,449          |
| Refuse removal                      | 150,196,516          | 141,008,513          |
| Other service charges               | 867,763              | 864,195              |
|                                     | <b>4,328,743,177</b> | <b>4,026,663,848</b> |

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

### 33. Rental of facilities and equipment

|                                 |                   |                   |
|---------------------------------|-------------------|-------------------|
| <b>Facilities and equipment</b> |                   |                   |
| Rental of facilities            | 33,989,260        | 33,770,709        |
| Rental of equipment             | 1,098,501         | 645,480           |
| Service concession rental*      | 14,128,893        | 14,130,389        |
|                                 | <b>49,216,654</b> | <b>48,546,578</b> |

\* The service concession rentals relate to the revenue recognised from the FRESHCO liability. Refer to note 25 for further information.

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

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### 34. Fines, penalties and forfeits

|                                      |                   |                   |
|--------------------------------------|-------------------|-------------------|
| Fines                                | 7,823,984         | 11,646,843        |
| Unclaimed deposits and stale cheques | 8,070,621         | 8,609,649         |
|                                      | <b>15,894,605</b> | <b>20,256,492</b> |

### 35. Interest from non-exchange transactions

|                                                     |            |            |
|-----------------------------------------------------|------------|------------|
| Consumer receivables from non-exchange transactions | 73,192,006 | 40,713,151 |
|-----------------------------------------------------|------------|------------|

### 36. Other income from exchange transactions

|                                   |                    |                   |
|-----------------------------------|--------------------|-------------------|
| Advertising                       | 6,090,430          | 5,314,866         |
| Building plan fees                | 6,173,420          | 6,051,126         |
| Clearance certificates            | 4,155,975          | 4,385,025         |
| Commission - Fresh produce market | 26,028,822         | 25,243,186        |
| Credit control fees               | 4,567,946          | 6,840,341         |
| Entrance fees                     | 91,846             | 172,793           |
| Grave plots                       | 4,888,023          | 5,005,951         |
| Insurance collection              | 1,337,683          | 2,687,695         |
| New connections                   | 20,088,781         | 7,080,600         |
| Parking                           | 1,388,515          | 1,378,457         |
| Sale of erven                     | 1,027,203          | 1,194,148         |
| Sale of tender documents          | 1,520,365          | 787,585           |
| Service concession revenue*       | 15,837,467         | 15,837,467        |
| Sundry income                     | 8,147,950          | 5,260,127         |
| Training                          | 574,764            | 373,756           |
| Transaction handling fees         | 218,133            | 17,527            |
|                                   | <b>102,137,323</b> | <b>87,630,650</b> |

\* The service concession revenue relates to the revenue recognised from the land availability liability. Refer to note 26 for further information.

### 37. Investment revenue

#### Dividends received

|                                   |       |       |
|-----------------------------------|-------|-------|
| Unlisted financial assets - Local | 2,656 | 2,248 |
|-----------------------------------|-------|-------|

#### Interest received from exchange transactions

|                                                                            |                    |                    |
|----------------------------------------------------------------------------|--------------------|--------------------|
| Interest on Eskom deposit                                                  | 19,822             | 23,658             |
| Interest earned on bank investments                                        | 300,133            | 97,136             |
| Interest charged on consumer and other receivables - exchange transactions | 279,153,529        | 196,926,540        |
| Interest charged on non-current receivables                                | 454,546            | 608,433            |
| Interest earned on cash and cash equivalents                               | 17,954,197         | 18,853,544         |
|                                                                            | <b>297,882,227</b> | <b>216,509,311</b> |

#### Total investment revenue

|  |                    |                    |
|--|--------------------|--------------------|
|  | <b>297,884,883</b> | <b>216,511,559</b> |
|--|--------------------|--------------------|

### 38. Agency services

|                                |           |           |
|--------------------------------|-----------|-----------|
| Southern Free State - Services | 5,942,316 | 6,444,060 |
|--------------------------------|-----------|-----------|

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### 39. Property rates

#### Rates received

|                                       |                      |                      |
|---------------------------------------|----------------------|----------------------|
| Residential and business / commercial | 1,063,741,448        | 779,807,646          |
| Government                            | 324,053,710          | 410,583,346          |
|                                       | <b>1,387,795,158</b> | <b>1,190,390,992</b> |

#### Valuations

|             |                        |                        |
|-------------|------------------------|------------------------|
| Residential | 69,766,782,823         | 68,972,371,472         |
| Commercial  | 22,181,864,283         | 22,151,331,153         |
| Government  | 11,567,223,365         | 11,503,758,376         |
| Municipal   | 4,315,611,082          | 4,293,655,212          |
|             | <b>107,831,481,553</b> | <b>106,921,116,213</b> |

Valuations on land and buildings are performed every 4 years. The last general valuation came into effect on 1 July 2017. Interim valuations are processed on an annual basis to take into account changes in individual property values due to alterations and subdivisions.

The first R 80,000 of the rateable value of residential property is exempted from taxes, including properties which are zoned for the purpose of town houses and flats, as well as smallholdings and farms used solely for residential and agricultural purposes.

In respect of qualifying senior citizens and disabled persons, the first R 250,000 of the rateable value of their residential properties is exempted from rates subject to the property value not exceeding R 2,000,000.

#### 2022:

From 1 July 2021 the basic rates were adjusted as follows:

- R 0.0089380 multiply by comma two five cent (0.25), per rand on the rateable value of farm property (exempt from VAT);
- R 0.0089380 on the value of rateable residential property;
- R 0.0044690 on the value of rateable property under development;
- R 0.0346340 on the value of rateable government property;
- R 0.0346340 on the value of rateable business property;
- R 0.0022350 on the value of rateable Public Service Infrastructure.

#### 2021:

From 1 July 2020 the basic rates were adjusted as follows:

- R 0.008432, multiply by comma two five cent (0.25), per rand on the rateable value of farm property (exempt from VAT);
- R 0.008432, on the value of rateable residential property;
- R 0.034634 on the value of rateable government property;
- R 0.034634 on the value of rateable business property;
- R 0.002109 on the value of rateable Public Service Infrastructure

Extension for the implementation of the new valuation roll for the current financial year was requested and granted by MEC of CoGTA. The validity of the old valuation roll was extended to 5 years from 1 July 2017 to 30 June 2022.

### 40. Grants and subsidies paid

#### Other subsidies

|                      |   |       |
|----------------------|---|-------|
| Miscellaneous Grants | - | 1,989 |
|----------------------|---|-------|

#### Miscellaneous grants:

These grants are allocated mainly for ad hoc grants and the free use of Council facilities, as approved during the year.

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### 41. Government grants & subsidies

#### Operating grants

|                                                  |                      |                      |
|--------------------------------------------------|----------------------|----------------------|
| Equitable share                                  | 830,046,000          | 911,525,000          |
| Expanded Public Works Programme Integrated Grant | 1,301,864            | 1,540,692            |
| Finance Management Grant                         | 1,998,719            | 2,196,814            |
| Fuel levy                                        | 332,282,000          | 319,813,000          |
| Programme and Project Preparation Support Grant  | 5,479,500            | -                    |
| Sports, Arts and Culture - Admin Libraries Grant | 1,371,881            | 758,075              |
|                                                  | <b>1,172,479,964</b> | <b>1,235,833,581</b> |

#### Capital grants

|                                                  |                      |                      |
|--------------------------------------------------|----------------------|----------------------|
| Human Settlements Provincial Grant               | 142,253,940          | -                    |
| Informal Settlements Upgrading Partnership Grant | 81,685,526           | -                    |
| Integrated City Development Grant                | -                    | 4,350,785            |
| Neighbourhood Development Partnership Grant      | 26,523,211           | 5,220,626            |
| Public Transport Network Grant                   | 130,861,420          | 279,877,313          |
| Urban Settlements Development Grant              | 527,008,026          | 515,160,876          |
|                                                  | <b>908,332,123</b>   | <b>804,609,600</b>   |
|                                                  | <b>2,080,812,087</b> | <b>2,040,443,181</b> |

#### Conditional and Unconditional

Included in above are the following grants and subsidies received:

|                               |                      |                      |
|-------------------------------|----------------------|----------------------|
| Conditional grants received   | 918,484,087          | 809,105,181          |
| Unconditional grants received | 1,162,328,000        | 1,231,338,000        |
|                               | <b>2,080,812,087</b> | <b>2,040,443,181</b> |

#### Equitable share

|                        |               |               |
|------------------------|---------------|---------------|
| Current year receipts  | 830,046,000   | 911,525,000   |
| Transferred to revenue | (830,046,000) | (911,525,000) |
|                        | -             | -             |

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

#### Fuel levy

|                        |               |               |
|------------------------|---------------|---------------|
| Current year receipts  | 332,282,000   | 319,813,000   |
| Transferred to revenue | (332,282,000) | (319,813,000) |
|                        | -             | -             |

The fuel levy is allocated to the entity from the General Fuel Levy Revenue Fund.

#### City of Ghent - Youth Development Grant

|                                      |         |         |
|--------------------------------------|---------|---------|
| Balance unspent at beginning of year | 481,950 | 481,950 |
|--------------------------------------|---------|---------|

Conditions still to be met - remain liabilities (see note 20).

The grant is given by the City of Ghent for youth development.

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### 41. Government grants & subsidies (continued)

#### Expanded Public Works Programme Integrated Grant

|                                         |               |                |
|-----------------------------------------|---------------|----------------|
| Balance unspent at beginning of year    | 364,394       | 1,375,087      |
| Surrendered to National Treasury        | (364,394)     | (1,313,001)    |
| Current year receipts                   | 1,316,000     | 1,843,000      |
| Conditions met - transferred to revenue | (1,301,864)   | (1,540,692)    |
|                                         | <b>14,136</b> | <b>364,394</b> |

Conditions still to be met - remain liabilities (see note 20).

The purpose of the grant is to expand work creation efforts through the use of labour incentives delivery methods in identified focus areas, in compliance with Expanded Public Works Programme (EPWP) guidelines.

#### Finance Management Grant

|                                         |                |              |
|-----------------------------------------|----------------|--------------|
| Balance unspent at beginning of year    | 3,186          | -            |
| Current year receipts                   | 2,100,000      | 2,200,000    |
| Conditions met - transferred to revenue | (1,998,719)    | (2,196,814)  |
|                                         | <b>104,467</b> | <b>3,186</b> |

Conditions still to be met - remain liabilities (see note 20).

The purpose of the grant is to promote and support reforms to financial management and the implementation of the MFMA.

#### Local Government Sector Education and Training Authority Grant

|                                      |                  |                  |
|--------------------------------------|------------------|------------------|
| Balance unspent at beginning of year | 2,228,830        | -                |
| Current year receipts                | 3,070,758        | 2,228,830        |
|                                      | <b>5,299,588</b> | <b>2,228,830</b> |

Conditions still to be met - remain liabilities (see note 20).

The grant is a learnership grant from LGSETA for interns seconded at different entities.

#### Municipal Disaster Recovery Grant

|                                      |          |              |
|--------------------------------------|----------|--------------|
| Balance unspent at beginning of year | -        | 69,815,066   |
| Surrendered to National Treasury     | -        | (69,815,066) |
|                                      | <b>-</b> | <b>-</b>     |

The purpose of the grant is to reconstruct and rehabilitate municipal infrastructure damaged by disaster. To restore functionality of municipal infrastructure following a disaster.

#### Municipal Human Settlements Capacity Grant

|                                      |           |           |
|--------------------------------------|-----------|-----------|
| Balance unspent at beginning of year | 2,000,000 | 2,000,000 |
|--------------------------------------|-----------|-----------|

Conditions still to be met - remain liabilities (see note 20).

The purpose of the grant is to build capacity in municipalities to deliver and subsidise the operational costs of administering human settlement programmes.

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### 41. Government grants & subsidies (continued)

#### Municipal Systems Improvement Grant

|                                      |           |           |
|--------------------------------------|-----------|-----------|
| Balance unspent at beginning of year | 1,055,000 | 1,055,000 |
|--------------------------------------|-----------|-----------|

Conditions still to be met - remain liabilities (see note 20).

The purpose of the grant is to assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal System Act, the Municipal Rates Act and related legislation.

#### Programme and Project Preparation Support Grant

|                                         |                  |          |
|-----------------------------------------|------------------|----------|
| Current year receipts                   | 6,934,000        | -        |
| Conditions met - transferred to revenue | (5,479,500)      | -        |
|                                         | <b>1,454,500</b> | <b>-</b> |

Conditions still to be met - remain liabilities (see note 20).

The grant provides funding to the metropolitan municipalities to enhance the performance of their urban built environment programmes by supporting programme and project preparation. It reflects commitments contained in the National Development Plan to streamline funding for urban public investments to support the restructuring of the urban built environment.

#### Sports, Arts and Culture - Admin Libraries

|                                         |                  |                  |
|-----------------------------------------|------------------|------------------|
| Balance unspent at beginning of year    | 4,692,787        | 3,450,862        |
| Current year receipts                   | 2,000,000        | 2,000,000        |
| Conditions met - transferred to revenue | (1,371,881)      | (758,075)        |
|                                         | <b>5,320,906</b> | <b>4,692,787</b> |

Conditions still to be met - remain liabilities (see note 20).

The purpose of the grant is to fund the administration of public libraries within the Mangaung Metropolitan Municipality area.

#### Department of Telecoms and Postal Services

|                                      |             |                  |
|--------------------------------------|-------------|------------------|
| Balance unspent at beginning of year | 1,133,554   | 1,133,554        |
| Transferred to other income          | (1,133,554) | -                |
|                                      | <b>-</b>    | <b>1,133,554</b> |

Conditions still to be met - remain liabilities (see note 20).

The purpose of the grant is to develop information and communication technology (ICT) policies and legislation that create favourable conditions for accelerated and shared sustainable economic growth that positively impacts on the wellbeing of all South Africans.

#### Informal Settlements Upgrading Partnership Grant

|                                         |                    |          |
|-----------------------------------------|--------------------|----------|
| Current year receipts                   | 213,893,000        | -        |
| Conditions met - transferred to revenue | (81,685,526)       | -        |
|                                         | <b>132,207,474</b> | <b>-</b> |

Conditions still to be met - remain liabilities (see note 20).

The purpose of the grant is for the upgrading of informal settlements.

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### 41. Government grants & subsidies (continued)

#### Integrated City Development Grant

|                                         |             |                  |
|-----------------------------------------|-------------|------------------|
| Balance unspent at beginning of year    | 3,714,313   | 7,192,099        |
| Surrendered to National Treasury        | (3,714,313) | (5,500,000)      |
| Current year receipts                   | -           | 6,373,000        |
| Conditions met - transferred to revenue | -           | (4,350,786)      |
|                                         | <b>-</b>    | <b>3,714,313</b> |

Conditions still to be met - remain liabilities (see note 20).

The purpose of the grant is to provide a financial incentive for metropolitan municipalities to integrate and focus their use of available infrastructure investment and regulatory instruments to achieve a more compact urban spatial form.

#### Neighbourhood Development Partnership Grant

|                                         |                  |                  |
|-----------------------------------------|------------------|------------------|
| Balance unspent at beginning of year    | 1,142,169        | 11,757,795       |
| Surrendered to National Treasury        | (1,142,169)      | (9,800,000)      |
| Current year receipts                   | 30,738,000       | 4,405,000        |
| Conditions met - transferred to revenue | (26,523,211)     | (5,220,626)      |
|                                         | <b>4,214,789</b> | <b>1,142,169</b> |

Conditions still to be met - remain liabilities (see note 20).

This grant is to be used for the development of urban network plans, to improve the quality of life and access of residents in under-served neighbourhoods.

#### Public Transport Network Grant

|                                         |                   |               |
|-----------------------------------------|-------------------|---------------|
| Balance unspent at beginning of year    | -                 | 103,044,313   |
| Surrendered to National Treasury        | -                 | (15,600,000)  |
| Current year receipts                   | 223,648,000       | 192,433,000   |
| Conditions met - transferred to revenue | (130,861,420)     | (279,877,313) |
|                                         | <b>92,786,580</b> | <b>-</b>      |

Conditions still to be met - remain liabilities (see note 20).

The grant is allocated to the entity to improve public transport infrastructure and systems, in accordance with agreed project plans.

#### Sustainable Human Settlements Grant

|                                      |             |                  |
|--------------------------------------|-------------|------------------|
| Balance unspent at beginning of year | 1,595,782   | 1,595,782        |
| Transferred to other income          | (1,595,782) | -                |
|                                      | <b>-</b>    | <b>1,595,782</b> |

Conditions still to be met - remain liabilities (see note 20).

The grant is used to supplement the capital revenues of metropolitan municipalities in order to support the national human settlements development programme, focusing on poor households.

#### Human Settlements Provincial Grant

|                                         |                   |          |
|-----------------------------------------|-------------------|----------|
| Current year receipts                   | 196,000,000       | -        |
| Conditions met - transferred to revenue | (142,253,940)     | -        |
|                                         | <b>53,746,060</b> | <b>-</b> |

Conditions still to be met - remain liabilities (see note 20).

This is a conditional grant with a specific purpose to provide for the upgrading of informal settlements.

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### 41. Government grants & subsidies (continued)

#### Urban Settlements Development Grant

|                                         |                    |                   |
|-----------------------------------------|--------------------|-------------------|
| Balance unspent at beginning of year    | 17,250,742         | 233,327,552       |
| Surrendered to National Treasury        | (13,158,123)       | (81,934,934)      |
| Current-year receipts                   | 795,269,000        | 381,019,000       |
| Conditions met - transferred to revenue | (527,008,026)      | (515,160,876)     |
|                                         | <b>272,353,593</b> | <b>17,250,742</b> |

Conditions still to be met - remain liabilities (see note 20).

The purpose of the grant is to supplement the capital revenues of metropolitan municipalities in order to support the national human settlements development programme, focusing on poor households.

#### Allocation-in-kind grants

The following grants were allocated in-kind to the municipality as per the Division of Revenue Bill:

|                                                                    |                    |                   |
|--------------------------------------------------------------------|--------------------|-------------------|
| Integrated National Electrification Programme (Eskom) Grant        | 9,006,000          | 1,112,000         |
| Municipal Systems Improvement Grant                                | 1,260,000          | 1,200,000         |
| Neighbourhood Development Partnership Grant (Technical Assistance) | 100,000            | 300,000           |
| Regional Bulk Infrastructure Grant                                 | 129,615,000        | 80,000,000        |
|                                                                    | <b>139,981,000</b> | <b>82,612,000</b> |

#### Purpose of each grant is as follows:

##### Integrated National Electrification Programme (Eskom) Grant

To implement the Integrated National Electrification Programme by providing capital subsidies to Eskom to address the electrification backlog of all existing and planned residential dwellings (including informal settlements, farm dwellers, new and existing dwellings) and the installation of relevant bulk infrastructure in Eskom licenced areas.

##### Municipal Systems Improvement Grant

To assist municipalities to perform their functions and stabilise institutional and governance systems as required in the Municipal Systems Act and related local government legislation.

##### Neighbourhood Development Partnership Grant (Technical Assistance)

To plan, catalyse, and invest in targeted locations in order to attract and sustain third party capital investments aimed at spatial transformation, that will improve the quality of life, and access to opportunities for residents in South Africa's targeted locations, under-served neighbourhoods, generally townships and rural towns; community safety programmes.

##### Regional Bulk Infrastructure Grant

To develop new, refurbish, upgrade and replace ageing bulk water and sanitation infrastructure of regional significance that connects water resources to infrastructure serving extensive areas across municipal boundaries or large regional bulk infrastructure serving numerous communities over a large area within a municipality; to implement bulk infrastructure with a potential of addressing water conservation and water demand management projects or facilitate and contribute to the implementation of local water conservation and water demand management projects that will directly impact on bulk infrastructure requirements.

#### Changes in level of government grants

Based on the allocations set out in the Division of Revenue Act, (Act 4 of 2020), no significant changes in the level of government grant funding are expected over the forthcoming 3 financial years.

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### 42. Public contributions and donations

|                   |           |   |
|-------------------|-----------|---|
| Capital donations | 2,900,907 | - |
|-------------------|-----------|---|

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

### 43. Employee related costs

|                                                                    |                      |                      |
|--------------------------------------------------------------------|----------------------|----------------------|
| Basic salaries and wages                                           | 1,451,347,907        | 1,385,684,449        |
| Contributions to Medical aid                                       | 125,451,450          | 117,427,806          |
| Contributions to Pension funds                                     | 219,003,087          | 209,879,232          |
| Contributions to UIF                                               | 8,739,557            | 7,411,257            |
| Defined benefit plan - Current service costs                       | 20,637,000           | 25,019,000           |
| Housing benefits and allowances                                    | 7,203,642            | 7,313,013            |
| Overtime, shift and standby allowances                             | 233,731,926          | 232,102,758          |
| Travel, motor car, accommodation, subsistence and other allowances | 138,137,074          | 137,624,142          |
| Leave pay                                                          | 25,571,492           | 62,507,380           |
|                                                                    | <b>2,229,823,135</b> | <b>2,184,969,037</b> |

# Mangaung Metropolitan Municipality

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### 43. Employee related costs (continued)

#### Detailed remuneration of key management

| 2022                                          | Annual<br>Remuneration | Car and other<br>allowances | Contribution to<br>UIF, Medical Aid<br>and Pension<br>Funds | Leave Pay        | Total             |
|-----------------------------------------------|------------------------|-----------------------------|-------------------------------------------------------------|------------------|-------------------|
| City Manager - Adv Mea TB                     | 190,366                | 42,000                      | 32,170                                                      | 467,247          | 731,783           |
| Acting City Manager - Maine TA                | 218,308                | 80,341                      | 61,790                                                      | -                | 360,439           |
| Acting City Manager - More SJ                 | 936,963                | 126,861                     | 11,763                                                      | -                | 1,075,587         |
| Acting City Manager - Nkungwana MG            | 105,546                | 41,029                      | 29,252                                                      | -                | 175,827           |
| Chief Financial Officer - Mofokeng S          | 1,031,719              | 516,000                     | 72,046                                                      | 316,289          | 1,936,054         |
| HOD Corporate Services - Nkaiseng DSR         | 1,188,956              | 448,068                     | 302,188                                                     | -                | 1,939,212         |
| HOD Economic and Rural Development - Maine TA | 888,544                | 81,200                      | 222,323                                                     | 309,102          | 1,501,169         |
| HOD Engineering Services - Ndlovu M           | 986,444                | 437,393                     | 196,065                                                     | 294,725          | 1,914,627         |
| HOD Human Settlements - Adv Phaladi MJN       | 1,060,600              | 308,512                     | 249,848                                                     | 194,087          | 1,813,047         |
| HOD Planning - Mthembu BS                     | 935,375                | 429,830                     | 229,608                                                     | 244,406          | 1,839,219         |
| HOD Social Services - Nkungwana MG            | 954,528                | 132,800                     | 226,587                                                     | 215,652          | 1,529,567         |
| HOD Waste and Fleet Management - More SJ      | 471,482                | 4,800                       | 8,057                                                       | 273,160          | 757,499           |
| Head of Police - Kganyane KI                  | 1,198,430              | 465,620                     | 274,562                                                     | -                | 1,938,612         |
|                                               | <b>10,167,261</b>      | <b>3,114,454</b>            | <b>1,916,259</b>                                            | <b>2,314,668</b> | <b>17,512,642</b> |

#### Changes to key management during the current financial year:

- Adv Mea TB resigned on 31 July 2021;
- Maine TA was appointed as Acting City Manager for the periods 21 May 2021 to 31 July 2021 and 26 January 2022 to 10 February 2022;
- More SJ was appointed as Acting City Manager for the period 31 July 2021 to 26 January 2022;
- Nkungwana MG was appointed as Acting City Manager for the period 22 February 2022 to 31 March 2022;
- The fixed term contracts for Mofokeng SE, Adv Phaladi MJN, Ndlovu M and Mthembu BS expired on 30 April 2022;
- The fixed term contracts for Maine TA and More SJ expired on 31 March 2022;
- The fixed term contract of Nkungwana MG expired on 28 March 2022.

| 2021                                        | Annual<br>Remuneration | Car and other<br>allowances | Contribution to<br>UIF, Medical Aid<br>and Pension<br>Funds | Total             |
|---------------------------------------------|------------------------|-----------------------------|-------------------------------------------------------------|-------------------|
| City Manager - Adv Mea TB                   | 1,563,389              | 504,000                     | 319,210                                                     | 2,386,599         |
| Chief Financial Officer - Mofokeng S        | 1,222,318              | 619,200                     | 69,028                                                      | 1,910,546         |
| HOD Corporate Services - Nkaiseng DSR       | 1,171,500              | 448,068                     | 289,246                                                     | 1,908,814         |
| HOD Economic & Rural Development - Maine TA | 1,398,342              | 139,200                     | 371,329                                                     | 1,908,871         |
| HOD Engineering Services - Ndlovu M         | 1,159,730              | 523,018                     | 226,090                                                     | 1,908,838         |
| HOD Human Settlements - Adv Phaladi MJN     | 1,252,063              | 370,214                     | 286,612                                                     | 1,908,889         |
| HOD Planning - Mthembu BS                   | 1,124,026              | 516,455                     | 267,781                                                     | 1,908,262         |
| HOD Social Services - Nkungwana MG          | 1,376,828              | 199,200                     | 332,228                                                     | 1,908,256         |
| HOD Waste and Fleet Management - More S     | 1,874,244              | 19,200                      | 17,710                                                      | 1,911,154         |
| Head of Police - Kganyane KI                | 1,177,696              | 465,620                     | 265,398                                                     | 1,908,714         |
| Acting HOD Planning - Kholonyane TA         | 88,770                 | 24,507                      | 21,236                                                      | 134,513           |
| Acting HOD Social Services - Barnes BJN     | 78,314                 | 35,040                      | 21,832                                                      | 135,186           |
|                                             | <b>13,487,220</b>      | <b>3,863,722</b>            | <b>2,487,700</b>                                            | <b>19,838,642</b> |

#### Changes to key management during the prior financial year:

- Barnes BJ was appointed as Acting HOD: Social Services for the period 21 December 2020 to 5 January 2021;
- Kholonyane TA was appointed as Acting HOD: Planning for the period 17 December 2020 to 11 January 2021.

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| <b>44. Remuneration of councillors</b> |                   |                   |
| Cell phone allowance                   | 4,514,000         | 4,297,700         |
| Councillors allowance                  | 48,615,914        | 46,827,638        |
| Councillors medical aid contributions  | 464,267           | 679,718           |
| Councillors pension contributions      | 855,057           | 1,637,546         |
| Housing allowance                      | 59,059            | 74,246            |
| Travel allowance                       | 13,386,645        | 12,014,475        |
|                                        | <b>67,894,942</b> | <b>65,531,323</b> |

### In-kind benefits

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

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

The Executive Mayor and Deputy Executive Mayor have two bodyguards on a rotational basis and an official driver at the cost of Council.

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### 44. Remuneration of councillors (continued)

#### Analysis of Councillors Remuneration

| 2022                                                  | Councillor Surname and Initials | Councillor allowance | Contributions to Pension and Medical aid | Travel, cellphone and other allowances | Total             |
|-------------------------------------------------------|---------------------------------|----------------------|------------------------------------------|----------------------------------------|-------------------|
| <b>Current council as at 30 June 2022</b>             |                                 |                      |                                          |                                        |                   |
| Executive Mayor                                       | Siyonzana MA                    | 929,102              | 14,400                                   | 272,417                                | 1,215,919         |
| Deputy Executive Mayor                                | Mothibi-Nkoane MM               | 755,774              | -                                        | 232,326                                | 988,100           |
| Speaker                                               | Lockman SB                      | 602,866              | -                                        | 183,771                                | 786,637           |
| Chief Whip                                            | Nikelo VE                       | 522,104              | -                                        | 169,942                                | 692,046           |
| MMC: Community and Social Services                    | Tladi MM                        | 502,407              | 10,080                                   | 165,716                                | 678,203           |
| MMC: Corporate Services                               | Mosala MT                       | 491,314              | 10,080                                   | 165,716                                | 667,110           |
| MMC: Environmental Management                         | Matsoetlane MJ                  | 517,931              | -                                        | 179,546                                | 697,477           |
| MMC: Finance, IDP and Performance Management          | Titi-Odili LM                   | 503,087              | 10,080                                   | 165,716                                | 678,883           |
| MMC: Human Settlement                                 | Van der Ross KE                 | 517,931              | -                                        | 179,546                                | 697,477           |
| MMC: Infrastructure and Public Works                  | Morake MA                       | 503,087              | 10,080                                   | 165,716                                | 678,883           |
| MMC: Planning and Economic Development                | Jonas-Malephane VE              | 503,087              | 10,080                                   | 165,716                                | 678,883           |
| MMC: Rural Development                                | Twala PS                        | 517,931              | -                                        | 179,546                                | 697,477           |
| MMC: Transport & Public Safety                        | Mogotloane TJ                   | 515,051              | 2,880                                    | 179,546                                | 697,477           |
| S79 Chairperson: Motions and Petitions                | Qai A                           | 490,416              | 9,271                                    | 179,546                                | 679,233           |
| S79 Chairperson: Municipal Public Accounts Committee  | Mokoakoa MI                     | 483,150              | -                                        | 165,716                                | 648,866           |
| S79 Chairperson: Public Places & Street Naming        | Seleke PL                       | 486,423              | 10,080                                   | 165,716                                | 662,219           |
| S79 Chairperson: Remunerations and Benefits Committee | Nhlapo NA                       | 499,687              | -                                        | 179,546                                | 679,233           |
| S79 Chairperson: Rules Committee                      | Mokgothu TKW                    | 211,135              | -                                        | 71,021                                 | 282,156           |
| <b>Previous council till 4 November 2021</b>          |                                 |                      |                                          |                                        |                   |
| Deputy Executive Mayor                                | Masoetsa LA                     | 300,126              | 42,138                                   | 108,179                                | 450,443           |
| Speaker                                               | Siyonzana MA                    | 136,074              | 2,880                                    | 57,464                                 | 196,418           |
| Chief Whip                                            | Mangcotywa ZE                   | 255,524              | 40,721                                   | 97,110                                 | 393,355           |
| MMC: Community and Social Services                    | Mahase MM                       | 290,485              | 5,760                                    | 97,110                                 | 393,355           |
| MMC: Corporate Services                               | Morake MA                       | 293,809              | 7,200                                    | 110,939                                | 411,948           |
| MMC: Environmental Management                         | Pongolo XD                      | 255,524              | 40,721                                   | 97,110                                 | 393,355           |
| MMC: Finance, IDP and Performance Management          | Titi-Odili LM                   | 293,809              | 7,200                                    | 110,939                                | 411,948           |
| MMC: Human Settlement                                 | Thipenyane G                    | 255,524              | 40,721                                   | 97,110                                 | 393,355           |
| MMC: Rural Development                                | Nothnagel J                     | 296,245              | -                                        | 97,110                                 | 393,355           |
| MMC: SMME and Rural Development                       | Jonas-Malephane VE              | 293,809              | 7,200                                    | 110,939                                | 411,948           |
| MMC: Spatial Planning and Land Use Management         | Nkhabu M                        | 290,485              | 5,760                                    | 97,110                                 | 393,355           |
| MMC: Transport & Public Safety                        | Monyakoana NP                   | 273,795              | -                                        | 97,110                                 | 370,905           |
| S79 Chairperson: Motions and Petitions                | Nkoe MJ                         | 247,860              | 39,673                                   | 94,695                                 | 382,228           |
| S79 Chairperson: Municipal Public Accounts Committee  | Tladi MM                        | 285,778              | 7,200                                    | 108,525                                | 401,503           |
| S79 Chairperson: Public Places & Street Naming        | Seleke PL                       | 324,334              | 5,760                                    | 69,149                                 | 399,243           |
| S79 Chairperson: Remunerations and Benefits Committee | Shounyana MM                    | 247,860              | 39,673                                   | 94,695                                 | 382,228           |
| Section 79 Chairperson: Rules                         | Mothibi-Nkoane MM               | 132,882              | -                                        | 47,348                                 | 180,230           |
| Part-time councillors                                 |                                 | 34,589,508           | 939,686                                  | 13,200,297                             | 48,729,491        |
|                                                       |                                 | <b>48,615,914</b>    | <b>1,319,324</b>                         | <b>17,959,704</b>                      | <b>67,894,942</b> |

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### 44. Remuneration of councillors (continued)

| 2021                                                      | Councillor Surname and Initials | Councillor allowance | Contributions to Pension and Medical aid | Travel, cellphone and other allowances | Total             |
|-----------------------------------------------------------|---------------------------------|----------------------|------------------------------------------|----------------------------------------|-------------------|
| Executive Mayor                                           | Mlamleli SM                     | 189,851              | -                                        | 7,400                                  | 197,251           |
| Deputy Executive Mayor                                    | Masoetsa LA                     | 981,835              | 134,163                                  | 324,537                                | 1,440,535         |
| Speaker                                                   | Siyonzana MA                    | 816,446              | 17,280                                   | 344,783                                | 1,178,509         |
| Chief Whip                                                | Mangcotywa ZE                   | 687,881              | 120,423                                  | 291,329                                | 1,099,633         |
| MMC: Community and Social Services                        | Mahase MM                       | 804,103              | 17,280                                   | 291,329                                | 1,112,712         |
| MMC: Corporate Services                                   | Morake MA                       | 804,104              | 17,280                                   | 291,329                                | 1,112,713         |
| MMC: Environmental Management                             | Pongolo XD                      | 696,257              | 121,719                                  | 291,329                                | 1,109,305         |
| MMC: Finance, IDP and Performance Management              | Titi-Odili LM                   | 804,104              | 17,280                                   | 291,329                                | 1,112,713         |
| MMC: Human Settlement                                     | Thipenyane G                    | 703,310              | 122,777                                  | 291,329                                | 1,117,416         |
| MMC: Rural Development                                    | Nothnagel J                     | 821,384              | -                                        | 291,329                                | 1,112,713         |
| MMC: SMME and Rural Development                           | Jonas VE                        | 804,104              | 17,280                                   | 291,329                                | 1,112,713         |
| MMC: Spatial Planning and Land Use Management             | Nkhabu M                        | 804,664              | 17,280                                   | 291,329                                | 1,113,273         |
| MMC: Transport & Public Safety                            | Monyakoana NP                   | 821,384              | -                                        | 291,329                                | 1,112,713         |
| S79 Chairperson: Geographical and Street Naming Committee | Ratsiu NA                       | 57,775               | 8,666                                    | 23,674                                 | 90,115            |
| S79 Chairperson: Motions and Petitions                    | Nkoe MJ                         | 675,402              | 118,590                                  | 284,085                                | 1,078,077         |
| S79 Chairperson: Municipal Public Accounts Committee      | Tladi MM                        | 780,009              | 17,280                                   | 284,085                                | 1,081,374         |
| Section 79 Chairperson: Public Places & Street Naming     | Seleke PL                       | 366,624              | -                                        | 69,149                                 | 435,773           |
| S79 Chairperson: Remunerations and Benefits Committee     | Shounyana MM                    | 675,401              | 118,590                                  | 284,085                                | 1,078,076         |
| Section 79 Chairperson: Rules                             | Mothibi-Nkoane MM               | 797,289              | -                                        | 284,085                                | 1,081,374         |
| Part-time councillors                                     |                                 | 33,735,711           | 1,451,376                                | 11,567,248                             | 46,754,335        |
|                                                           |                                 | <b>46,827,638</b>    | <b>2,317,264</b>                         | <b>16,386,421</b>                      | <b>65,531,323</b> |

The salaries, allowance and benefits of councillors are within the upper limits of the framework envisaged in section 219 of the Constitution of South Africa.

### 45. Depreciation and amortisation

|                               |                    |                    |
|-------------------------------|--------------------|--------------------|
| Intangible assets             | 12,416,504         | 10,195,379         |
| Living resources              | 204,150            | 187,064            |
| Property, plant and equipment | 894,035,938        | 935,790,772        |
|                               | <b>906,656,592</b> | <b>946,173,215</b> |

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

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### 46. Impairment loss

#### Impairment loss/(reversal of impairments)

|                               |                   |                  |
|-------------------------------|-------------------|------------------|
| Property, plant and equipment | 25,566,987        | 6,818,926        |
| Inventories                   | (345,620)         | (967,690)        |
|                               | <b>25,221,367</b> | <b>5,851,236</b> |

#### Property, plant and equipment

The recoverable amount of the asset was assessed at the end of the financial year and it was found to be less than the carrying amount of the asset and an impairment loss was raised.

#### Inventories

An assessment of the net realisable value against cost was performed and inventory was written down.

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

- Implementation of Projects placed on hold,
- Damaged fleet still to be sold at auction; and
- Vandalism.

### 47. Finance costs

|                             |                    |                    |
|-----------------------------|--------------------|--------------------|
| Borrowings                  | 74,805,005         | 87,707,686         |
| Employee benefit obligation | 58,849,000         | 50,324,990         |
| Finance lease obligation    | 2,190,539          | 13,612,304         |
| Trade and other payables    | 37,428,889         | 14,645,174         |
| Unwinding of provisions     | 72,036,168         | 32,419,764         |
|                             | <b>245,309,601</b> | <b>198,709,918</b> |

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

### 48. Auditors' remuneration

|      |            |            |
|------|------------|------------|
| Fees | 26,129,319 | 26,685,702 |
|------|------------|------------|

### 49. Debt impairment and bad debt write off

|                                            |                      |                    |
|--------------------------------------------|----------------------|--------------------|
| Debt impairment - Consumer receivables     | 1,732,018,443        | 809,329,420        |
| Debt impairment - Traffic fine receivables | 3,039,891            | 5,739,806          |
| Bad debts written off                      | 122,452,573          | 8,542,361          |
|                                            | <b>1,857,510,907</b> | <b>823,611,587</b> |

During the financial year, the write off amounting to R 122,452,573 (2021: R 6,855,912) related to the write off of indigent consumers' debt as at the date of registration on the indigent register. The amounts exclude VAT.

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|------------------------------------|--------------------|--------------------|
| <b>50. General expenses</b>        |                    |                    |
| Animal costs                       | 191,523            | 106,286            |
| Auditors' remuneration             | 26,129,319         | 26,685,702         |
| Bank charges and commissions       | 18,022,600         | 16,461,059         |
| Bursaries to employees             | 2,242,760          | 2,114,101          |
| Chemicals                          | 11,328,361         | 8,432,467          |
| Consumables                        | 7,195,564          | 14,533,962         |
| Electricity                        | 1,473,442          | 1,267,193          |
| Fuel and oil                       | 30,644,526         | 21,670,797         |
| Indigent relief - Free electricity | 4,070,105          | 4,424,117          |
| Insurance                          | 31,478,713         | 26,776,126         |
| Learnerships and internships       | 1,519,900          | 2,196,814          |
| Marketing and advertising          | 3,486,045          | 1,746,351          |
| Motor vehicle expenses             | 10,073,870         | 8,089,122          |
| Operating lease expenditure        | 39,454,002         | 20,304,010         |
| Postage and courier                | 4,491,023          | 6,898,748          |
| Printing and stationery            | 3,753,791          | 2,748,618          |
| Protective clothing                | 15,470,586         | 3,186,858          |
| Remuneration of ward committees    | 2,442,489          | 5,219,827          |
| Repairs and maintenance            | 79,505,180         | 54,486,105         |
| Royalties and license fees         | 21,751,594         | 28,578,618         |
| Skills development levy            | 19,345,971         | 15,878,446         |
| Subscriptions and membership fees  | 16,698,487         | 16,396,285         |
| Sundry expenses                    | 2,375,696          | 2,456,209          |
| Telephone and fax                  | 12,787,622         | 14,815,751         |
| Title deed search fees             | 133,822            | 2,062,882          |
| Transport and freight              | 135,587            | 1,782,379          |
| Travel - local                     | 1,557,711          | 347,815            |
| Water research                     | 5,123,055          | 3,880,906          |
| Workmen's compensation             | 5,376,180          | 4,867,249          |
|                                    | <b>378,259,524</b> | <b>318,414,803</b> |

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

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Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

| Figures in Rand                  | 2022                 | 2021                 |
|----------------------------------|----------------------|----------------------|
| <b>51. Bulk purchases</b>        |                      |                      |
| Electricity purchases            | 2,061,862,827        | 1,780,067,168        |
| Water purchases                  | 835,315,570          | 743,539,271          |
|                                  | <b>2,897,178,397</b> | <b>2,523,606,439</b> |
| <b>Electricity losses</b>        |                      |                      |
| Units purchased (kWh)            | 1,532,812,290        | 1,567,559,592        |
| Units sold (kWh)                 | (1,364,816,063)      | (1,410,019,853)      |
| <b>Total loss</b>                | <b>167,996,227</b>   | <b>157,539,739</b>   |
| <b>Rand value of loss</b>        |                      |                      |
| Units loss (kWh)                 | 167,915,025          | 157,539,739          |
| Rand value per unit (kWh)        | 1.44                 | 1.16                 |
| <b>Total</b>                     | <b>241,915,025</b>   | <b>182,694,562</b>   |
| <b>Percentage Loss:</b>          |                      |                      |
| Technical losses                 | 7.31 %               | 6.70 %               |
| Non-technical losses             | 3.65 %               | 3.35 %               |
| <b>Total</b>                     | <b>10.96 %</b>       | <b>10.05 %</b>       |
| <b>Water losses</b>              |                      |                      |
| Units purchased (KL)             | 80,807,354           | 78,528,375           |
| Units sold (KL)                  | (44,137,655)         | (43,297,816)         |
| <b>Total loss (KL)</b>           | <b>36,669,699</b>    | <b>35,230,559</b>    |
| <b>Rand value of loss</b>        |                      |                      |
| Units loss (KL)                  | 36,669,699           | 35,230,559           |
| Rand value per unit (KL)         | 11.09                | 9.57                 |
| <b>Total rand value for loss</b> | <b>406,666,962</b>   | <b>337,156,450</b>   |
| <b>Percentage Loss:</b>          |                      |                      |
| Technical losses                 | 45.00 %              | 45.00 %              |

### Reasons for material losses:

Material bulk water losses are not recoverable. The main reason for incurring water losses relate to burst water pipes, leaks and illegal water connections.

Electricity distribution losses are made up of technical and non-technical losses which are the difference between electricity purchased and electricity sold. Non-technical losses are amongst others the result of administrative and technical errors, negligence, theft of electricity, tampering with meters and connections which form part of illegal consumption, faulty meters, etc. Technical losses are the result of electricity losses while being distributed from the source of generation through the transmission and distribution network to the final consumer. The wires (copper or aluminium) being used to distribute electricity have certain resistance which resist the throughput of current, as a result there is a certain portion of electricity that is lost due to distribution.

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### 52. Contracted services

#### Outsourced Services

|                           |            |            |
|---------------------------|------------|------------|
| Burial services           | 1,251,850  | 1,065,530  |
| Internal Auditors         | 1,682,563  | 1,931,272  |
| Meter management services | 7,946,403  | 8,346,020  |
| Refuse removal services   | 19,651,166 | 1,897,744  |
| Sewerage services         | 13,131,855 | 15,323,199 |

#### Consultants and Professional Services

|                                      |            |            |
|--------------------------------------|------------|------------|
| Business and advisory services       | 91,073,578 | 92,433,198 |
| Infrastructure and planning services | 10,541,619 | 21,106,356 |
| Legal costs                          | 52,748,839 | 76,384,549 |

#### Contractors

|                                 |                    |                    |
|---------------------------------|--------------------|--------------------|
| Catering services               | 257,149            | 100,375            |
| Electrical services             | 1,263,190          | 1,434,647          |
| Gardening services              | 454,741            | 398,276            |
| Other contracted services       | 3,002,269          | 3,678,603          |
| Prepaid electricity vendors     | 54,103,632         | 48,088,511         |
| Repairs and maintenance         | 264,547,649        | 214,882,364        |
| Safeguard and security services | 94,808,702         | 92,659,893         |
|                                 | <b>616,465,205</b> | <b>579,730,537</b> |

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

### 53. Fair value adjustments

|                                                                                  |                   |                  |
|----------------------------------------------------------------------------------|-------------------|------------------|
| Investment property (Fair value model)                                           | 15,032,645        | (321,453)        |
| Non-current receivables (Designated as at fair value through surplus or deficit) | 12,209            | 7,973            |
|                                                                                  | <b>15,044,854</b> | <b>(313,480)</b> |

Prior year figures were restated due to errors identified in the current financial year, refer to note 70.

### 54. Loss on disposal of assets and liabilities

|                                                                   |            |            |
|-------------------------------------------------------------------|------------|------------|
| Losses arising from the disposal of property, plant and equipment | 17,451,494 | 29,820,446 |
|-------------------------------------------------------------------|------------|------------|

Prior year figures were restated due to errors identified in the current financial year, refer to the prior period error note 70.

### 55. Loss on revaluation of assets

|                                                                      |             |   |
|----------------------------------------------------------------------|-------------|---|
| Losses arising from the revaluation of property, plant and equipment | 113,405,317 | - |
|----------------------------------------------------------------------|-------------|---|

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

| Figures in Rand                                     | 2022                 | 2021               |
|-----------------------------------------------------|----------------------|--------------------|
| <b>56. Cash generated from operations</b>           |                      |                    |
| Deficit                                             | (872,688,325)        | (20,230,382)       |
| <b>Adjustments for:</b>                             |                      |                    |
| Depreciation and amortisation                       | 906,656,592          | 946,173,215        |
| Loss on disposal of assets and liabilities          | 17,451,494           | 29,820,446         |
| Loss on revaluation of assets                       | 113,405,317          | -                  |
| Fair value adjustments                              | (15,044,854)         | 313,480            |
| Impairment loss                                     | 25,221,367           | 5,851,236          |
| Movements in retirement benefit liabilities         | 4,864,001            | 85,120,371         |
| Living resources                                    | (444,200)            | (334,600)          |
| Unwinding of provisions                             | 72,036,168           | 32,419,764         |
| Unwinding of FRESCHO                                | (14,127,896)         | (14,127,896)       |
| Unwinding of Land Availability                      | (15,837,467)         | (15,837,467)       |
| Deferred tax                                        | (79,726,995)         | (22,361,088)       |
| Finance charges                                     | 76,995,544           | 101,319,990        |
| Public contributions and donations                  | (2,900,907)          | -                  |
| Interest received                                   | (454,546)            | (608,433)          |
| <b>Changes in working capital:</b>                  |                      |                    |
| Inventories                                         | (51,244,005)         | (11,920,336)       |
| Other receivables from exchange transactions        | (34,630,736)         | (38,931,509)       |
| Consumer receivables from exchange transactions     | 280,451,507          | (263,076,885)      |
| Consumer receivables from non-exchange transactions | 427,585,081          | 106,588,948        |
| Other receivables from non-exchange transactions    | 186,055              | (549,997)          |
| Payables from exchange transactions                 | 216,339,326          | 107,524,569        |
| VAT                                                 | (28,947,861)         | 70,128,899         |
| Payables from non-exchange transactions             | (28,868,893)         | 72,818,924         |
| Unspent conditional grants and receipts             | 535,376,336          | (400,566,353)      |
| Consumer deposits                                   | 3,819,684            | (1,981,529)        |
|                                                     | <b>1,535,471,787</b> | <b>767,553,367</b> |

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### 57. Financial instruments disclosure

#### Categories of financial instruments

#### 2022

##### Financial assets

|                                                 | At fair value  | At amortised cost    | Total                |
|-------------------------------------------------|----------------|----------------------|----------------------|
| Consumer receivables from exchange transactions | -              | 1,380,600,289        | 1,380,600,289        |
| Other receivables from exchange transactions    | -              | 223,316,415          | 223,316,415          |
| Cash and cash equivalents                       | -              | 740,390,421          | 740,390,421          |
| Non-current receivables                         | 124,259        | 602,167              | 726,426              |
|                                                 | <b>124,259</b> | <b>2,344,909,292</b> | <b>2,345,033,551</b> |

##### Financial liabilities

|                                     | At amortised cost    | Total                |
|-------------------------------------|----------------------|----------------------|
| Payables from exchange transactions | 2,063,232,154        | 2,063,232,154        |
| Finance lease obligation            | 15,596,040           | 15,596,040           |
| Borrowings                          | 668,894,832          | 668,894,832          |
|                                     | <b>2,747,723,026</b> | <b>2,747,723,026</b> |

#### 2021

##### Financial assets

|                                                 | At fair value  | At amortised cost    | Total                |
|-------------------------------------------------|----------------|----------------------|----------------------|
| Consumer receivables from exchange transactions | -              | 1,661,051,796        | 1,661,051,796        |
| Other receivables from exchange transactions    | -              | 188,685,679          | 188,685,679          |
| Cash and cash equivalents                       | -              | 211,357,882          | 211,357,882          |
| Non-current receivables                         | 112,050        | 866,435              | 978,485              |
|                                                 | <b>112,050</b> | <b>2,061,961,792</b> | <b>2,062,073,842</b> |

##### Financial liabilities

|                                     | At amortised cost    | Total                |
|-------------------------------------|----------------------|----------------------|
| Payables from exchange transactions | 1,821,482,702        | 1,821,482,702        |
| Finance lease obligation            | 55,365,518           | 55,365,518           |
| Borrowings                          | 776,430,974          | 776,430,974          |
|                                     | <b>2,653,279,194</b> | <b>2,653,279,194</b> |

Comparative figures were restated due to prior period errors affecting other financial line items. Refer to note 70 for further detail on prior period errors.

Payable from non-exchange transactions and consumer deposits were not disclosed as financial instruments, due to the line items not satisfying the updated requirements of GRAP 104.

# Mangaung Metropolitan Municipality

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### 58. Commitments

#### Commitments in respect of capital expenditure

##### Already contracted for but not provided for

|                         |                    |                    |
|-------------------------|--------------------|--------------------|
| • Other assets          | -                  | 897,925            |
| • Infrastructure assets | 258,225,549        | 222,359,799        |
|                         | <b>258,225,549</b> | <b>223,257,724</b> |

#### Commitments in respect of operational expenditure

##### Already contracted for but not provided for

|                       |         |           |
|-----------------------|---------|-----------|
| • Contracted services | 304,664 | 1,315,869 |
|-----------------------|---------|-----------|

#### The capital expenditure will be financed from

|                            |                    |                    |
|----------------------------|--------------------|--------------------|
| Unspent conditional grants | 248,788,169        | 36,829,318         |
| Own funding                | 9,437,380          | 186,428,406        |
|                            | <b>258,225,549</b> | <b>223,257,724</b> |

Prior year commitments amounting to R2,215,600 were restated due to the restatements of prior year accruals.

This committed expenditure relates to infrastructure and operational expenditure and will be financed by available bank facilities, retained surpluses, existing cash resources, funds internally generated, etc.

All commitments include VAT.

#### Operating leases - as lessee (expense)

##### Minimum lease payments due

|                   |         |         |
|-------------------|---------|---------|
| - within one year | 918,882 | 835,347 |
|-------------------|---------|---------|

A building situated in Botshabelo is leased from the Free State Development Corporation (FDC) for an indefinite period which can be terminated by way of a 3-month cancellation clause. Management agreed to rent from FDC for the next financial year at the end of which management will re-assess the likelihood of extending the lease further. The lease rental is escalated annually on 1 December by 10%.

#### Operating leases - as lessor (income)

##### Minimum lease payments due

|                                     |                   |                   |
|-------------------------------------|-------------------|-------------------|
| - within one year                   | 6,382,239         | 6,573,751         |
| - in second to fifth year inclusive | 17,006,180        | 21,690,801        |
| - later than five years             | 17,013,667        | 18,711,284        |
|                                     | <b>40,402,086</b> | <b>46,975,836</b> |

The entity leases various fixed properties under non-cancellable operating leases to various institutions. The lease agreements have escalations between 4% to 12% per year with the agreements varying between 2 and 50 years.

Rental income, for these agreements, to the value of R33,989,260 (2021: R33,770,709) has been recognised in the Statement of Financial Performance during the year. Renewal options have been taken into account during the calculation of the deferred lease.

There are no purchase options or contingent rent during the year.

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### 59. Contingencies

#### Contingent liabilities

##### Guarantees

|                    |         |         |
|--------------------|---------|---------|
| Housing guarantees | 494,069 | 775,372 |
|--------------------|---------|---------|

The entity has provided housing guarantees for bonds of municipal officials. The certainty and the timing of the outflow of these guarantees are uncertain. The amounts disclosed are the possible outflow amounts.

##### Other contingent liabilities

|                                                                    |                   |                    |
|--------------------------------------------------------------------|-------------------|--------------------|
| Labour cases and employee related matters                          | 6,589,952         | 2,425,001          |
| Claims by individuals due to property damages in various incidents | 19,620,088        | 8,594,083          |
| Claims by individuals due to various incidents                     | 57,674,601        | 132,957,557        |
|                                                                    | <b>83,884,641</b> | <b>143,976,641</b> |

The entity is involved in the abovementioned classes of pending claims. These include labour, insurance claims, breaches in supply chain management and other small related claims. All the claims are being contested based on legal advice. The certainty and timing the outflow of these liabilities are uncertain. The amounts disclosed are possible outflow amounts.

Legal firms assisting the municipality are rate based and therefore the legal cost to the municipality in such matters cannot be determined.

#### Contingent assets

##### Guarantees

|                                 |           |           |
|---------------------------------|-----------|-----------|
| Quarry rehabilitation guarantee | 8,842,597 | 7,454,252 |
|---------------------------------|-----------|-----------|

Petra quarry is owned by the municipality but is leased and operated by a private firm. It should be noted that the lease agreement with the current operator states that the tenant is responsible for rehabilitation costs. However, in the event that the tenant cannot fulfil the rehabilitation duties, the municipality were guaranteed for the amount of R 8,842,597 (2021: R7,454,252) during the 2022 evaluations, to ensure that the Petra quarry will be rehabilitated. Petra Quarry has a financial guarantee in place that covers rehabilitation. This was renewed on 04 November 2021.

#### Prior period error:

Prior year figures relating to contingent assets were restated due to errors identified in the current financial year for prior years, refer to the prior period error note 70.

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### 60. Related parties

|                                  |                                                                                                         |
|----------------------------------|---------------------------------------------------------------------------------------------------------|
| Relationships                    |                                                                                                         |
| Accounting Officers              | Refer to accounting officer's report paragraph 5 for detail on the accounting officers during the year. |
| Controlled entities              | Centlec (SOC) Limited                                                                                   |
| Members of key management        | Refer to note 43                                                                                        |
| Members of the mayoral committee | Refer to note 44                                                                                        |

The entity was placed under administration under Section 139(5)(a) and 139(5)(c) of the Constitution of the Republic of South Africa effective from 1 January 2020, and as per the terms of reference, the administrators have significant influence over the metro.

Thus, during this period of temporary control, the Metro (and any entities it controls) is required to include as per GRAP 20 all related party disclosures in its financial statements from the date that it was placed under administration.

The administrative team is comprised of the following members effective from 1 January 2020:

1. Adv. Mzwakhe Mofokeng – Office of the Premier.
2. Masechaba Sesing – Provincial Accountant General & CA.
3. Dineo Mokheseng – Provincial COGTA.
4. Ernest Mohlahlo – Acting Head Public Works & Infrastructure.
5. Thomas Lindelo Mkaza – Vast experience in local government.
6. Thembinkosi Mawonga - Vast experience in local government (from 3 May 2021).
7. Luvuyo Ntosi - Vast experience in local government (from 3 May 2021).

In addition to the above National Cabinet requested on the 06 April 2022 for National Treasury to intervene in the affairs of Mangaung Metropolitan Municipality. The Minister for Finance approved the national intervention in terms of section 139(7) of the Constitution of the Republic of South Africa Act, 1996 ("the Constitution") read with section 150 of the MFMA, on the 26th of April 2022 and was published on 28 April 2022.

#### The interim intervention team is comprised of the following members and their assumed positions:

1. Eliot Maseko - Interim National Cabinet Representative
2. Tebogo Motlashuping (National CoGTA) - Acting City Manager
3. Timothy Sediti (National Treasury) - Acting CFO
4. Adv Nkateko Mpangane (National CoGTA) - Acting HOD Corporate services
5. Wallace Rodney McLeod - Acting HOD Engineering
6. Ngaka Rosins Mosehana-Dumalisile (Department of Human Settlements) - Acting HOD Human Settlement
7. Xolilizwe Clement Manyungwana (Department of Transport) - Fleet Management
8. Francois Nei (Department of Forestry Fisheries and the Environment) - Waste Management

#### The National intervention team were as follows:

1. Maseko P - National Cabinet Representative (till 31 October 2022)
2. Malaza G - National Cabinet Representative (from 1 November 2022)
3. Mewalall S - Finance Specialist
4. Mngomane E - Service Delivery Specialist
5. Mapholoba L - Governance Specialist

There were no related party transactions with any of the administrators listed above during the current or prior year. All transactions with provincial and national departments were within normal operating parameters.

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### 60. Related parties (continued)

#### Remuneration of management

##### Councillors / Mayoral committee members:

Refer to note 44 for details relating to remuneration of councillors.

Councillors also accounts with the entity for the provision of normal municipal services. These are not disclosed as related parties as it is done on terms and conditions which is no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and those terms and conditions are within the normal operating parameters established by the reporting entity's legal mandate.

##### Executive management:

Refer to note 43 for details relating to the remuneration of executive management.

Executive management have accounts with the entity for the provision of normal municipal services. These are not disclosed as related parties as it is done on terms and conditions which is no more or less favourable than those which it is reasonable to expect the entity to have adopted if dealing with that individual entity or person in the same circumstances and those terms and conditions are within the normal operating parameters established by the reporting entity's legal mandate.

No further transactions took place between the entity and key management personnel or their close family members during the reporting period.

#### Compensation to directors and other key management - Centlec (SOC) Limited

|                                                                    |                   |                  |
|--------------------------------------------------------------------|-------------------|------------------|
| Annual remuneration                                                | 9,303,916         | 5,430,086        |
| Travel, motor car, accommodation, subsistence and other allowances | 1,204,565         | 856,500          |
| Contributions to UIF, medical and pension funds                    | 117,191           | 78,906           |
| Acting allowance                                                   | 120,037           | 366,458          |
| Directors' fee                                                     | -                 | 392,671          |
|                                                                    | <b>10,745,709</b> | <b>7,124,621</b> |

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### 60. Related parties (continued)

#### Remuneration of management

#### Non-executive directors' emoluments - Centlec (SOC) Limited

2021

| Name                          | Directors' fees | Company contribution - UIF | Company contribution - SDL | Total          |
|-------------------------------|-----------------|----------------------------|----------------------------|----------------|
| Mokhesi N (Chairperson)       | 93,109          | 595                        | 931                        | 94,635         |
| Myeni DC (Deputy Chairperson) | 67,470          | 554                        | 675                        | 68,699         |
| Moroka KM                     | 78,374          | 618                        | 784                        | 79,776         |
| Choeu CAK                     | 66,470          | 618                        | 665                        | 67,753         |
| Ngubeni T                     | 13,776          | 138                        | 138                        | 14,052         |
| Skwintshi Y                   | 18,368          | 149                        | 183                        | 18,700         |
| Tsiki R                       | 18,368          | 149                        | 183                        | 18,700         |
| Mazibuko T                    | 18,368          | 149                        | 183                        | 18,700         |
| Manye T                       | 18,368          | 149                        | 183                        | 18,700         |
|                               | <b>392,671</b>  | <b>3,119</b>               | <b>3,925</b>               | <b>399,715</b> |

### 61. Risk management

#### Financial risk management

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

This note presents information about the entity's exposure to each of the financial risks below and the entity's objectives, policies and processes for measuring and managing the financial risks. Further quantitative disclosures are included throughout the annual financial statements.

The Council has overall responsibility for the establishment and oversight of the entity's risk management framework.

The entity's audit committee oversees the monitoring of compliance with the entity's risk management policies and procedures, and reviews the adequacy of the risk management framework in relation to the risks faced by the entity. The audit committee is assisted in its oversight role by the entity's internal audit function.

The entity monitors and manages the financial risks relating to the operations of the entity through internal risk reports which analyse exposures by degree and magnitude of risks.

The entity seeks to minimise the effects of these risks in accordance with the entity's policies approved by the Council. The policies provide written principals on interest rate risk, credit risk and the investment of excess liquidity.

Compliance with policies and exposure limits is reviewed by the internal auditors on a continuous basis. The entity does not enter into or trade in financial instruments for speculative purposes.

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### 61. Risk management (continued)

#### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions.

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

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

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

The municipal entity has started replacing rotational meters with prepaid meters to improve the cash funds available.

The municipal entity has not defaulted on payables and lease commitment payments.

All of the municipal entity's financial assets have been reviewed for indicators of impairment. Certain receivables were found to be impaired and a provision has been recorded accordingly. The impaired receivables are mostly due from customers defaulting on service costs levied by the municipal entity.

The entity is exposed to a number of guarantees for housing loans to employees. Refer to note 59 for additional details.

#### At 30 June 2022

|                                         | Less than<br>1 year  | Between<br>1 and 5 years | Over 5 years |
|-----------------------------------------|----------------------|--------------------------|--------------|
| Borrowings                              | 198,773,523          | 470,121,506              | -            |
| Finance lease obligations               | 14,484,322           | 1,511,179                | -            |
| Payables from exchange transaction      | 2,391,868,670        | -                        | -            |
| Payables from non-exchange transactions | 307,755,239          | -                        | -            |
|                                         | <b>2,912,881,754</b> | <b>471,632,685</b>       | <b>-</b>     |

#### At 30 June 2021

|                                         | Less than<br>1 year  | Between<br>1 and 5 years | Over 5 years      |
|-----------------------------------------|----------------------|--------------------------|-------------------|
| Borrowings                              | 134,804,868          | 587,342,127              | 54,283,979        |
| Finance lease obligations               | 39,872,944           | 18,209,429               | -                 |
| Payables from exchange transaction      | 2,175,529,343        | -                        | -                 |
| Payables from non-exchange transactions | 336,624,132          | -                        | -                 |
|                                         | <b>2,686,831,287</b> | <b>605,551,556</b>       | <b>54,283,979</b> |

#### Credit risk

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

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

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

|                                                 |               |               |
|-------------------------------------------------|---------------|---------------|
| Consumer receivables from exchange transactions | 1,380,600,289 | 1,661,051,796 |
| Other receivables from exchange transactions    | 223,316,415   | 188,685,679   |
| Cash and cash equivalents                       | 740,390,421   | 211,357,882   |
| Non-current receivables - at fair value         | 124,259       | 112,050       |
| Non-current receivables - at amortised cost     | 602,167       | 866,435       |

These balances represent the maximum exposure to credit risk.

There has been no change, since the previous financial year, to the entity's exposure to credit risks or the manner in which it manages and measures the risks.

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### 61. Risk management (continued)

#### Market risk

#### Interest rate risk

Interest rate risk is defined as the risk that the fair value of future cash flows associated with a financial instrument will fluctuate in amount as a result of market interest rate changes.

The entity's policy is to minimise interest rate cash flow risk exposures on long-term financing. Longer term borrowings are therefore usually at fixed rates.

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

- Call, notice and fixed deposits
- Development Bank of South Africa, Standard Bank of South Africa Limited and ABSA loans
- Finance lease obligations

At year-end, financial instruments exposed to interest rate risk due to being linked to prime interest rate were as follows:

- Interest charged on consumer receivables from exchange transactions overdue.

The entity's interest rate risk arises from long-term borrowings and finance leases. Borrowings and finance leases issued at variable rates expose the entity to cash flow interest rate risk.

Borrowings and finance leases issued at fixed rates expose the entity to fair value interest rate risk. Entity policy is to maintain the majority of its borrowings and finance leases in fixed rate instruments. During 2022 and 2021, the entity's borrowings and finance leases at variable rate were denominated in the Rand.

The municipal entity's interest rate risk arises from the above financial instruments being linked to the prime interest rate. The prime interest rate is used as a factor in calculating the interest received or interest charged on these financial instruments. Fluctuations in the prime interest rate during the year give rise to a possible interest rate risk affecting the entity.

#### Fair values

The municipal entity's financial instruments consist mainly of cash and cash equivalents, investments, trade receivables, trade payables and long term debt.

No financial asset was carried at an amount in excess of its fair value. The following methods and assumptions are used to determine the fair value of each class of financial instrument:

#### Cash and cash equivalents

The carrying amount of cash and cash equivalents approximates fair value due to the relatively short-term maturity of these financial assets and financial liabilities.

#### Investments

Investments are carried at their original cost in the statement of financial position, except for those where the interest received are capitalised.

#### Receivables from exchange transactions

The carrying amount of trade receivables, net of provision for impairment (provision for bad debt) approximates fair value due to the relatively short-term maturity of these financial assets.

#### Trade payables

The carrying amount of trade payables approximates fair value due to the relatively short-term maturity of this financial liability.

#### Interest bearing loans

Subsequent to initial recognition, interest bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in surplus or deficit over the period of the borrowings on an effective interest basis. The fair value of interest bearing borrowings with variable interest rates approximates their carrying amounts.

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### 61. Risk management (continued)

#### Foreign exchange risk

The entity does not enter into significant foreign currency transactions and has had very limited exposure to foreign currency risk.

The entity does not hedge foreign exchange fluctuations.

The municipality reviews its foreign currency exposure, including commitments on an ongoing basis. The municipality expects its foreign exchange contracts to hedge foreign exchange exposure.

#### Price risk

The entity is exposed to equity securities price risk because of investments held by the entity and classified on the statement of financial position either as available-for-sale or at fair value through surplus or deficit. The entity is not exposed to commodity price risk.

Price risk is the risk that the fair value of future cash flows of financial instruments will fluctuate because of changes in market prices. These changes are caused by factors specific to the individual financial instruments for its users or by factors affecting all similar financial instruments in the market. The municipal entity's financial instruments are affected by the whole sale price of electricity from ESKOM. Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit.

Post-tax surplus for the year would increase/decrease as a result of gains or losses on equity securities classified as at fair value through surplus or deficit. Other components of equity would increase/decrease as a result of gains or losses on equity securities classified as available-for-sale.

### 62. Going concern

The consolidated 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.

During the prior year, the entity was placed under section 139(5)(a) & (c) of the Constitution due to financial constraints. A financial recovery plan has been put in place and is closely monitored by Provincial Government. Adjustments were made to the budget of the current and next three financial years to ensure that financial stability is reached and maintained.

We draw attention to the fact that at 30 June 2022, the municipality had an accumulated surplus of R 12,216,364,112 (2021: R 13,070,517,459) and that the municipality's total assets exceed its total liabilities by R 17,271,667,485 (2021: R 18,150,683,079).

The entity had a surplus/(deficit) of R (872,688,325) (2021: R (20,230,382)) for the year. The current liabilities exceed the current asset by R 485,444,061 and in the prior year the current liabilities exceeded the current assets by R 167,767,918.

As disclosed in note 16, the average repayment term of suppliers were 165 days (2021: 162 days) and the outstanding amount owed for bulk water supplies is R 568,836,830 (2021: R 670,029,022) which was long overdue. These events or conditions, along with other matters as set forth in this note indicates that a material uncertainty exists that may cast significant doubt on the entity's ability to continue as a going concern.

The entity incurred material water losses, refer to note 51 for further detail.

The entity provided for material impairments for receivables from exchange and non-exchange transactions, refer to notes 49 for further details.

The entity experienced a positive cash movement during the current year, refer to the Cash Flow Statement.

The municipality is experiencing labour difficulties and vacancies in key positions (91% vacancy rate). This places strain on the municipalities ability to effectively govern its financial viability, while negatively impacting governance and accountability.

### 63. Events after the reporting date

The municipality embarked on a process of compiling the 2022 to 2024 indigent register to ensure implementation of free basic services to deserving and qualifying poor households in line with the Council approved indigent policy.

During a special council meeting held on 19 August 2022 it has been resolved that additional indigent accounts should be included in the 2022 indigent register for write-off in the 2022 financial year.

The municipality increased indigent debt write-off for the 2022 financial year by R141,692,461, refer to note 49 for further information.

The additional write-off was included in the 2022 financial year's transactions.

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### 64. Unauthorised expenditure

|                               |                      |                      |
|-------------------------------|----------------------|----------------------|
| Opening balance               | 4,191,015,979        | 3,433,872,479        |
| Add: Unauthorised expenditure | 1,448,495,011        | 757,143,500          |
| <b>Closing balance</b>        | <b>5,639,510,990</b> | <b>4,191,015,979</b> |

### Unauthorised expenditure per department

#### Unauthorised expenditure - OPEX

|                                       |             |             |
|---------------------------------------|-------------|-------------|
| Corporate Services                    | 127,891,731 | 212,774,925 |
| Economic and Rural Development        | -           | 534,378     |
| Engineering Services                  | 388,436,939 | 281,981,553 |
| Finance                               | 13,443,234  | -           |
| Human Settlement and Housing          | 15,188,444  | -           |
| Planning                              | -           | 6,043,679   |
| Social Services                       | 16,112,888  | 21,315,547  |
| Strategic Services & Service Delivery | 852,651     | 256,476     |
| Waste and Fleet Management            | 77,627,263  | 47,118,380  |
| Public Safety                         | 20,666,553  | -           |
| Water Services                        | 560,315,820 | -           |
| Gentlec (SOC) Limited                 | 194,513,696 | 187,118,562 |

#### Unauthorised expenditure - CAPEX

|                            |                      |                    |
|----------------------------|----------------------|--------------------|
| Finance                    | 68,920               | -                  |
| Waste and Fleet Management | 33,376,872           | -                  |
|                            | <b>1,448,495,011</b> | <b>757,143,500</b> |

### Disciplinary steps taken/criminal proceedings

No investigations were performed or disciplinary steps taken during the year.

### 65. Fruitless and wasteful expenditure

|                                            |                    |                    |
|--------------------------------------------|--------------------|--------------------|
| Opening balance                            | 146,651,685        | 115,038,488        |
| Add: Fruitless and wasteful - current year | 93,607,043         | 31,613,197         |
| <b>Closing balance</b>                     | <b>240,258,728</b> | <b>146,651,685</b> |

### Disciplinary steps taken/criminal proceedings

No investigations were performed or disciplinary steps taken during the year.

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

| Incidents identified - 2022                                                                         | Amount            |
|-----------------------------------------------------------------------------------------------------|-------------------|
| Interest paid to The Auditor General due to late payments                                           | 135,167           |
| Interest paid to Eskom SOC Ltd due to late payments                                                 | 114,783           |
| Interest paid to the Provincial Department of Police, Roads and Transport due to late payment       | 66,001            |
| Interest paid to Modderivier Kalkveld WGV due to late payments                                      | 36,868            |
| Interest paid to Telkom SA Ltd due to late payments                                                 | 225,747           |
| Interest paid to the SABC due to late payments                                                      | 636               |
| Expenditure incurred relating to the Mangaung Metro Police Department                               | 4,543,030         |
| Interest due to various court orders                                                                | 1,609,439         |
| Overpayment of councillors allowances                                                               | 24,228            |
| Overpayment of suppliers                                                                            | 2,029,155         |
| Interest paid to Bloemwater due to late payments                                                    | 23,731,624        |
| Performance audit                                                                                   | 51,415,178        |
| Interest incurred on late payment of Eskom SOC Ltd, Telkom SA Ltd and Department of Labour accounts | 9,675,187         |
|                                                                                                     | <b>93,607,043</b> |
| <br>Incidents identified - 2021                                                                     | <br>Amount        |
| Interest paid to ABSA due to late payment                                                           | 140,560           |
| Interest paid to The Auditor General due to late payments                                           | 42,919            |
| Interest paid to Eskom SOC Ltd due to late payments                                                 | 12,295,101        |
| Interest paid to the Provincial Department of Police, Roads and Transport due to late payment       | 580,439           |
| Interest paid to Telkom SA Ltd due to late payments                                                 | 54,078            |
| Interest and penalties paid to SARS on PAYE, SDL and UIF                                            | 5,365             |
| Interest paid to Modderivier Kalkveld WGV due to late payments                                      | 10,170            |
| Lawyers' fees and interest due to various court orders                                              | 691,864           |
| Overpayment of councillors allowances                                                               | 132,380           |
| Overpayment of supplier                                                                             | 698,345           |
| IPTN projects where service providers claimed extension of time                                     | 16,906,820        |
| Employee related costs incurred for an employee after his employment contract ended                 | 55,156            |
|                                                                                                     | <b>31,613,197</b> |

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| <b>66. Irregular expenditure</b>                                                                                               |                      |                      |
| Opening balance                                                                                                                | 2,895,923,645        | 2,673,058,594        |
| Add: Irregular Expenditure - current year                                                                                      | 164,306,651          | 191,408,902          |
| Irregular expenditure - Previous year expenditure detected in the current year                                                 | 22,228,405           | 31,456,149           |
| <b>Closing balance</b>                                                                                                         | <b>3,082,458,701</b> | <b>2,895,923,645</b> |
| <b>Disciplinary steps taken/criminal proceedings</b>                                                                           |                      |                      |
| No investigations were performed or disciplinary steps taken during the year.                                                  |                      |                      |
| <b>Incidents/cases identified in the current and prior year include those listed below:</b>                                    |                      |                      |
| <b>Description</b>                                                                                                             |                      |                      |
| Non-compliance with SCM processes                                                                                              | 152,342,636          | 9,795,514            |
| Non-compliance with SCM processes - prior years                                                                                | 22,228,405           | -                    |
| Procurement in contravention with Supply Chain Management policy, Municipal Financial Management Act and Municipal Systems Act | 290,968              | 31,456,149           |
| Service providers where contracts were extended without council approval                                                       | -                    | 181,481,008          |
| Overpayment of Councillors                                                                                                     | 24,228               | 132,380              |
| Contracts declared as irregular expenditure in the prior year                                                                  | 11,648,819           | -                    |
|                                                                                                                                | <b>186,535,056</b>   | <b>222,865,051</b>   |
| <b>67. Additional disclosure in terms of Municipal Finance Management Act</b>                                                  |                      |                      |
| <b>Contributions to organised local government</b>                                                                             |                      |                      |
| Current year subscription                                                                                                      | 16,333,276           | 15,659,900           |
| Amount paid - current year                                                                                                     | (16,333,276)         | (15,659,900)         |
|                                                                                                                                | -                    | -                    |
| Contributions to organised local government consists of annual subscriptions paid to SALGA.                                    |                      |                      |
| <b>Audit fees</b>                                                                                                              |                      |                      |
| Opening balance                                                                                                                | 6,548,451            | 3,829,958            |
| Amount paid - previous years                                                                                                   | (6,548,451)          | (3,829,958)          |
| Current year audit fee                                                                                                         | 26,129,319           | 26,719,828           |
| Amount paid - current year                                                                                                     | (24,075,138)         | (20,171,377)         |
|                                                                                                                                | <b>2,054,181</b>     | <b>6,548,451</b>     |
| Amount excluding VAT.                                                                                                          |                      |                      |
| <b>PAYE, UIF and SDL</b>                                                                                                       |                      |                      |
| Opening balance                                                                                                                | 29,258,312           | 27,429,834           |
| Amount paid - previous years                                                                                                   | (29,339,332)         | (27,429,834)         |
| Current year declarations                                                                                                      | 431,098,483          | 408,391,549          |
| Amount paid - current year                                                                                                     | (394,600,472)        | (379,133,237)        |
|                                                                                                                                | <b>36,416,991</b>    | <b>29,258,312</b>    |
| <b>Pension and Medical Aid Deductions</b>                                                                                      |                      |                      |
| Opening balance                                                                                                                | 35,963,288           | 32,859,178           |
| Amount paid - previous years                                                                                                   | (35,963,288)         | (32,859,178)         |
| Current year payroll deductions and council contributions                                                                      | 537,274,090          | 510,507,797          |
| Amount paid - current year                                                                                                     | (501,588,197)        | (474,544,509)        |
|                                                                                                                                | <b>35,685,893</b>    | <b>35,963,288</b>    |

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

#### VAT

|                |                     |                     |
|----------------|---------------------|---------------------|
| VAT receivable | 157,348,027         | 79,750,043          |
| VAT payable    | (219,974,323)       | (171,324,199)       |
|                | <b>(62,626,296)</b> | <b>(91,574,156)</b> |

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

#### Councillors' arrear consumer accounts

Refer to Appendix A for details relating to Councillors arrear debt.

#### Grants withheld

The following amounts were withheld by National Treasury due to the slow implementation of projects. The amounts were subsequently forfeited.

|                                                           |                   |                    |
|-----------------------------------------------------------|-------------------|--------------------|
| Expanded Public Works Programme Incentive Grant           | 364,394           | -                  |
| Integrated City Development Grant                         | 3,714,313         | 77,000             |
| Neighbourhood Development Grant                           | 1,142,169         | 5,595,000          |
| Public Transport Infrastructure and Network Systems Grant | -                 | 49,777,000         |
| Urban Settlement Development Grant                        | 13,158,123        | 373,574,000        |
|                                                           | <b>18,378,999</b> | <b>429,023,000</b> |

### 68. Deviation from supply chain management regulations

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

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

For the current financial year there were instances where goods and services were procured and deviated from the normal Supply Management Policy, as provided for in section 15.8.3 of the Supply Chain Management Policy:

#### Class of deviation - 2022

|                                                   | Number of deviations | Amount            |
|---------------------------------------------------|----------------------|-------------------|
| Burial services                                   | 300                  | 1,248,409         |
| General repairs and maintenance of agent products | 161                  | 6,746,863         |
| Impractical                                       | 5                    | 2,656,754         |
| Newspaper advertisements                          | 21                   | 683,586           |
| Sole supplier                                     | 28                   | 13,523,755        |
| Strip and quote                                   | 12                   | 756,254           |
| Urgent                                            | 2                    | 314,897           |
| Other                                             | 8                    | 314,016           |
|                                                   | <b>537</b>           | <b>26,244,534</b> |

#### Class of deviation - 2021

|               | Number of deviations | Amount            |
|---------------|----------------------|-------------------|
| Emergency     | 10                   | 6,465,451         |
| Sole supplier | 32                   | 7,408,441         |
| Urgent        | 4                    | 3,224,936         |
| Other         | 14                   | 482,375           |
|               | <b>60</b>            | <b>17,581,203</b> |

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### 69. Change in estimate

#### Property, plant and equipment

For the following classes of property, plant and equipment the remaining useful lives were adjusted to a minimum remaining useful life of 3 years and additionally the municipal entity changed its accounting estimates with respect to property, plant and equipment. In order to conform with the benchmark treatment of GRAP17, the residual values, estimated useful lives and depreciation method were reviewed at 30 June 2022. Adjustments to the useful lives affect the amount of depreciation for the current year and is expected to affect future periods as well.

It is impracticable to estimate the effect on future periods as the remaining useful lives is reviewed at each reporting date.

The effect of the change has resulted in a change in depreciation as follows:

#### Asset Class Depreciation

|                                          | Depreciation<br>before change<br>in estimate | Change in<br>Depreciation | Depreciation<br>after change in<br>estimate |
|------------------------------------------|----------------------------------------------|---------------------------|---------------------------------------------|
| Buildings                                | 4,641,887                                    | (1,545,884)               | 3,096,003                                   |
| Community - Landfill sites and quarries  | 54,815,154                                   | (18,117,271)              | 36,697,883                                  |
| Community - Other                        | 14,597,439                                   | (4,061,352)               | 10,536,087                                  |
| Fleet                                    | 17,492,255                                   | (13,051,926)              | 4,440,329                                   |
| Infrastructure - Roads and roads related | 124,462,284                                  | (40,850,104)              | 83,612,180                                  |
| Infrastructure - Sanitation network      | 8,526,918                                    | (2,814,687)               | 5,712,231                                   |
| Infrastructure - Water meters            | 1,693,505                                    | (693,053)                 | 1,000,452                                   |
| Infrastructure - Water network           | 9,836,498                                    | (3,271,440)               | 6,565,058                                   |
| Intangible assets                        | 12,028,537                                   | (11,926,262)              | 102,275                                     |
| Other property, plant and equipment      | 16,936,833                                   | (9,927,931)               | 7,008,902                                   |
|                                          | <b>265,031,310</b>                           | <b>(106,259,910)</b>      | <b>158,771,400</b>                          |

#### Provisions

The municipality's accounting policy requires the review of the useful lives of quarries at least at each financial year-end. The remaining useful lives were adjusted to a minimum remaining useful life of 3 years.

The revisions were accounted for prospectively as a change in accounting estimates and as a result, the total balance of the provision for the rehabilitation of quarries for the current financial year has been classified as non-current liabilities.

As a result, non-current liabilities relating to provisions have increased by R520,287,727 and current liabilities relating to provisions have decreased by R520,287,727.

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### 70. Prior period errors and change in accounting policy

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

| Statement of Financial Position                 | As previously reported | Correction of error | Reclassification | Change in accounting policy | Restated 2021        |
|-------------------------------------------------|------------------------|---------------------|------------------|-----------------------------|----------------------|
| <b>Current Assets</b>                           |                        |                     |                  |                             |                      |
| Inventories                                     | 630,108,403            | (54,714)            | -                | -                           | 630,053,689          |
| Consumer receivables from exchange transactions | 1,663,015,028          | (1,963,232)         | -                | -                           | 1,661,051,796        |
| Other receivables from exchange transactions    | 167,972,020            | 20,713,659          | -                | -                           | 188,685,679          |
| <b>Non-Current Assets</b>                       |                        |                     |                  |                             |                      |
| Property, plant and equipment                   | 18,273,916,451         | (75,910,149)        | -                | (2,791,001)                 | 18,195,215,301       |
| Intangible assets                               | 103,837,905            | 1,202,386           | -                | -                           | 105,040,291          |
| Living resources                                | -                      | -                   | -                | 2,791,001                   | 2,791,001            |
| Non-current receivables                         | 745,124                | (42,109)            | -                | -                           | 703,015              |
| <b>Current Liabilities</b>                      |                        |                     |                  |                             |                      |
| Payables from exchange transactions             | (2,170,104,786)        | (5,424,558)         | -                | -                           | (2,175,529,344)      |
| VAT payable                                     | (105,029,981)          | 13,455,825          | -                | -                           | (91,574,156)         |
| Borrowings                                      | (160,165,318)          | -                   | 706,013          | -                           | (159,459,305)        |
| Employee benefit obligation                     | (1,831,000)            | -                   | (35,379,000)     | -                           | (37,210,000)         |
| <b>Non-Current Liabilities</b>                  |                        |                     |                  |                             |                      |
| Finance lease obligation                        | (39,437,565)           | (2,283,512)         | -                | -                           | (41,721,077)         |
| Borrowings                                      | (616,519,976)          | 254,320             | (706,013)        | -                           | (616,971,669)        |
| Employee benefit obligation                     | (606,814,001)          | -                   | 35,379,000       | -                           | (571,435,001)        |
| <b>Reserves</b>                                 |                        |                     |                  |                             |                      |
| Revaluation reserve                             | (4,997,354,603)        | 8,079,362           | -                | -                           | (4,989,275,241)      |
| Accumulated surplus                             | (13,112,490,181)       | 41,972,722          | -                | -                           | (13,070,517,459)     |
|                                                 | <b>(970,152,480)</b>   | <b>-</b>            | <b>-</b>         | <b>-</b>                    | <b>(970,152,480)</b> |

| Statement of Financial Performance 2021    | As previously reported | Correction of error | Reclassification | Change in accounting policy | Restated 2021          |
|--------------------------------------------|------------------------|---------------------|------------------|-----------------------------|------------------------|
| <b>Revenue</b>                             |                        |                     |                  |                             |                        |
| Service charges                            | (4,018,334,594)        | (8,329,254)         | -                | -                           | (4,026,663,848)        |
| Rental of facilities and equipment         | (48,634,302)           | 87,724              | -                | -                           | (48,546,578)           |
| Living resources                           | -                      | -                   | (334,600)        | -                           | (334,600)              |
| Public contributions and donations         | (334,600)              | -                   | 334,600          | -                           | -                      |
| <b>Expenditure</b>                         |                        |                     |                  |                             |                        |
| Depreciation and amortisation              | 945,749,358            | 423,857             | -                | -                           | 946,173,215            |
| Finance costs                              | 166,450,787            | (160,633)           | 32,419,764       | -                           | 198,709,918            |
| Contracted services                        | 543,307,665            | 36,422,872          | -                | -                           | 579,730,537            |
| General expenses                           | 327,601,177            | (4,713,800)         | (4,472,574)      | -                           | 318,414,803            |
| Loss on disposal of assets and liabilities | 26,214,767             | 3,605,679           | -                | -                           | 29,820,446             |
| Inventory losses/write- down               | -                      | -                   | 4,472,574        | -                           | 4,472,574              |
| Fair value adjustments                     | 32,733,244             | -                   | (32,419,764)     | -                           | 313,480                |
|                                            | <b>(2,025,246,498)</b> | <b>27,336,445</b>   | <b>-</b>         | <b>-</b>                    | <b>(1,997,910,053)</b> |

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### 70. Prior period errors and change in accounting policy (continued)

The details of the correction of errors above and their effect on the comparative figures are explained below:

#### Inventories:

The comparative figure for inventories was restated due to the transfer of land which was not accounted for in previous financial years. Consequently, inventories decreased to R630,053,689.

#### Consumer receivables from exchange transactions:

The comparative figure for consumer receivables from exchange transactions was restated due to consumer debt relating to a debt incentive scheme initiated in 2016 not being written off although the debt qualified for write off in terms of the incentive scheme. All debt qualifying for the incentive scheme write off was identified and corrected. Consequently, consumer receivables from exchange transactions decreased to R1,661,051,796.

#### Other receivables from exchange transactions:

The comparative figure for other receivables from exchange transactions was restated due to errors identified in the deferred lease balance. Furthermore, the non-current portion of other receivables from exchange transactions has been reclassified to non-current receivables. Lastly, during the period under review it was noted that prepaid customers who were zoned as business were being charged residential tariffs for prepaid electricity purchases instead of business tariffs.

A recalculation was performed to determine the correct value the customers should have been charged during the current and previous financial year. A debtor was raised in the prior financial year and an auxiliary will be implemented on the affected customers' meters to recover this receivable. Consequently, other receivables from exchange transactions increased to R188,685,679.

#### Property, plant and equipment:

The comparative figure for property, plant and equipment was restated due to various reasons, which include:

- Derecognition of assets which have been previously disposed of;
- Derecognition of expenditure items that were incorrectly capitalised as assets;
- Reclassification of zoo animals from property, plant and equipment to living resources;
- Recognition of assets that were previously classified as expenditure; and
- Recognition of assets that were unbundled from completed projects

Consequently, property, plant and equipment decreased to R18,195,215,301.

#### Intangible assets:

The comparative figure for intangible assets was restated due to reclassifications of items previously disclosed as property, plant and equipment. Consequently, intangible assets increased to R105,040,291.

#### Non-current receivables:

The comparative figure for non-current receivables was restated due to the reclassification of the non-current portion of other receivables from exchange transactions. Consequently, non-current receivables decreased to R703,015.

#### Payables from exchange transactions:

The comparative figure for payables from exchange transactions was restated due to various reasons, which include:

- Accounting for accruals that were identified during the current financial year that relate to the previous financial year; and
- Correction of accruals that were incorrectly raised during the previous financial year

Consequently, payables from exchange transactions increased to R2,175,529,344.

#### VAT payable:

The comparative figure for VAT payable was restated due to various reasons, which include:

- The effect of a VAT recovery process that was undertaken during the current financial year; and
- The effect of accruals that were not accounted for in the prior year.
- The effect of a reclassification from general expenses to VAT payable.

Consequently, VAT payable decreased to R91,574,156.

#### Finance lease obligation:

The comparative figure for finance lease obligations was restated due to an error in calculation of the balance during the previous financial year. Consequently, the non-current portion of finance lease obligations increased to R41,721,077.

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### 70. Prior period errors and change in accounting policy (continued)

#### Borrowings:

The comparative figure for borrowings was restated due to an error in the calculation of the closing balance during the previous financial year. Therefore, the non-current portion of borrowings decreased by R254 320. Furthermore, R706 013 was incorrectly recognised as part of the current portion of the borrowings. Consequently, the current portion of borrowings decreased to R159,459,306 and the non-current portion increased to R616,971,668.

#### Employee benefit obligation:

The comparative figure for employee benefit obligation was restated due to the reclassification of the current portion from the non-current portion. Consequently, the current portion of employee benefit obligation increased to R37,210,000 and the non-current portion decreased to R571,435,000.

#### Revaluation reserve:

The comparative figure for the revaluation reserve was restated due to the effect of the prior period errors on property, plant and equipment. Consequently, the revaluation reserve decreased to R4,989,275,243.

#### Accumulated surplus:

The comparative figure for the accumulated surplus was restated due to the cumulative effect of the various prior period errors. Consequently, the accumulated surplus decreased to R13,070,517,459.

#### Service charges:

The comparative figure for service charges was restated. During the period under review it was noted that prepaid customers who were zoned as business were being charged residential tariffs for prepaid electricity purchases instead of business tariffs. A recalculation was performed to determine the correct value the customers should have been charged during the current and previous financial year. A debtor was raised in the prior financial year and an auxiliary will be implemented on the affected customers' meters to recover this receivable. Consequently, service charges increased to R4,026,663,848.

#### Rental of facilities and equipment:

The comparative figure for rental of facilities and equipment was restated due to errors identified in the deferred lease balance. Consequently, rental of facilities and equipment decreased to R48,546,578.

#### Living resources:

The comparative figure for living resources was restated due to the reclassification of the amount from public contributions and donations. Consequently, living resources increased to R334,500.

#### Depreciation and amortisation:

The comparative figure for depreciation and amortisation was restated due to the effect of the prior period errors on property, plant and equipment. Consequently, depreciation and amortisation increased to R946,173,215.

#### Finance costs:

The comparative figure for finance cost was restated due to the effect of the prior period errors on payables from exchange transactions and borrowings. Furthermore, the unwinding of the provisions was reclassified from fair value adjustments to finance cost. Consequently, finance cost increased to R198,709,918.

#### Contracted services:

The comparative figure for contracted services was restated due to the effect of the prior period errors on VAT payable, payables from exchange transactions and property, plant and equipment. Consequently, contracted services increased to R579,730,537.

#### General expenses:

The comparative figure for general expenses was restated due to the effect of the prior period errors on VAT payable and payables from exchange transactions. Furthermore, inventory losses/write-downs were reclassified from general expenses. Lastly, an account from general expenses was reclassified to VAT payable. Consequently, general expenses decreased to R318,414,803.

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### 70. Prior period errors and change in accounting policy (continued)

#### Loss on disposal of assets and liabilities:

The comparative figure for loss on disposal of assets and liabilities was restated due to the effect of the prior period errors on property, plant and equipment. Consequently, loss on disposal of assets and liabilities increased to R29,820,446.

#### Public contributions and donations:

The comparative figure for public contributions and donations was restated due to the reclassification of the amount to living resources. Consequently, public contributions and donations decreased to Rnil.

#### Fair value adjustments:

The comparative figure for fair value adjustments was restated due to the reclassification of the unwinding of provisions to finance cost. Consequently, fair value adjustments decreased to R313,480.

#### Inventory losses/write-downs:

The comparative figure for inventory losses/write-downs was restated due to the reclassification of the amount from general expenses. Consequently, inventory losses/write-downs increased to R4,472,574.

#### Contingent Assets:

The comparative figure for contingent assets was restated due to the contingent asset relating to the quarry rehabilitation guarantee not being previously disclosed. Consequently, contingent assets increased to R7,454,252.

#### Financial instruments:

Payables from non-exchange transactions and consumer deposits were removed from the financial instruments disclosure due to not meeting the definition of a financial instrument.

**The details of the change in accounting policy above and its effect on the comparative figures are explained below:**

#### Change in accounting policy - Living resources

The comparative figure for living resources was restated due to the adoption of GRAP 110 - Living and Non-living Resources during the current financial year. The change in accounting policy was applied retrospectively. Consequently, living resources increased to R2,791,001.

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

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### 71. Budget differences

#### Material differences between budget and actual amounts

The following are explanations for material variances of more than 10% between budget and actual amounts.

#### Financial Performance:

##### 71.1 Service charges:

The variance is attributed partially to the impact of frequent loadshedding experienced during the year as well as customers considering alternative energy sources due to the escalating electricity tariffs.

##### 71.2 Rental of facilities and equipment:

The variance is due to higher use of municipal facilities than anticipated and higher collection of rental income.

##### 71.3 Agency services:

The variance is attributed to the drop in the transaction values for the Southern Free State municipalities. The drop is due to the impact of loadshedding that reduced the volume of transactions linked to the Southern Free State municipality towns.

##### 71.4 Other income and exchange transactions:

The variance is due to lower revenue collected for rendering of services than anticipated.

##### 71.5 Interest received from exchange transactions:

The variance is due to an increase in accounts receivable, resulting in an increase in interest received from exchange transactions.

##### 71.6 Dividends received:

Immaterial difference amount.

##### 71.7 Interest received from non-exchange transactions:

The variance is due to an increase in accounts receivable, resulting in an increase in interest received from non-exchange transactions.

##### 71.8 Government grants and subsidies (Operational):

The variance is due to additional funding that was received later during the financial year.

##### 71.9 Public contributions and donations:

Immaterial difference amount.

##### 71.10 Fines, penalties and forfeits:

The variance is mainly due to hampered performance regarding the implementation of the traffic management system.

##### 71.11 Living resources:

Immaterial difference amount.

##### 71.12 Impairment loss, depreciation and amortisation:

The entity did not expect to lose any value in assets through impairment and thus did not budget for this type of expenditure.

##### 71.13 Finance cost:

The variance is due to insufficient budget for borrowings and the employee benefit obligation.

##### 71.14 Debt impairment & bad debt write-off:

The variance is due to the inclusion of government debt for purposes of impairment.

##### 71.15 Bulk purchases:

The variance is due to the high increases in tariffs charged by bulk water supplier and the unexpected water losses incurred due to aging water infrastructure.

##### 71.16 Grants and subsidies paid:

Immaterial difference amount.

##### 71.17 General expenses:

The variance is due to increased costs of electricity and higher cost incurred in operating lease expenditures as well as the impact of the suspension of the procurement process by the courts which delayed the appointment of some of the service providers.

##### 71.18 Loss on disposal of assets:

The proceeds on disposals are unpredictable at the time of preparing the budget which is the cause for the variance.

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### 71. Budget differences (continued)

#### 71.19 Fair value adjustments:

The variance is mainly due to derecognitions performed on land, downwards revaluing of water meters, quarries and landfill sites.

#### 71.20 Actuarial gains:

The variance is due to unplanned estimates from actuaries.

#### 71.21 Inventory losses:

Immaterial difference amount.

#### 71.22 Loss on revaluation of assets:

The variance is due to revaluations performed on property, plant and equipment, and as such the entity has not budgeted for this kind of transaction.

#### 71.23 Government grants and subsidies (Capital):

The variance is mainly due to an unexpected grant received, Human Settlements Provincial Grant, in March 2022.

#### 71.24 Tax expense:

The tax expense is based on the accounting surplus/deficit which is affected by the variances above included in the statement of financial performance.

### Financial Position:

#### 71.25 Current assets:

The variance is mainly due to the impact of the debt impairment that could not have been reliably predicted at the time of preparing the budget for consumer debtors.

#### 71.26 Non-current assets:

The variance is mainly due to increases in values that were moved from work in progress to capitalisation resulted in an increase in depreciation. Additionally, the variance in deferred tax is mainly attributed to the larger than anticipated taxable loss resulting in a large temporary tax difference.

#### 71.27 Current liabilities:

The variance is mainly due to an increase in bulk water purchases, comprising of the price per kilolitre as well as the increase in quantity. Additionally, some of the line items that make up the payable from exchange transaction such as the deferred revenue, electricity connections and unallocated deposit did not move in the same direction as projected in the budget.

#### 71.28 Non-current liabilities:

The variance is mainly due to under budgeted changes to finance leases, borrowings and the reduction in the liabilities incurred on service concession assets. Additionally, the deferred tax final figure is influenced by the actual movements in the timing differences that cannot be reliably predicted. Furthermore, the parameters used to arrive at the figure for long service awards are influenced by the actuarial records at year-end while the budget is based on the adjusted projections of the prior year.

#### Reserves:

71.29 The variance is due to the impact of the over and under performance on revenue and expenditure items as indicated above under financial performance and financial position.

### Cash flow:

71.30 The variance is due to the impact of the over and under performance on revenue and expenditure items as indicated above under financial performance and financial position.

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| <b>72. Taxation</b>                                        |                     |                     |
| <b>Major components of the tax income</b>                  |                     |                     |
| <b>Deferred</b>                                            |                     |                     |
| Originating and reversing temporary differences            | (42,222,907)        | (36,798,818)        |
| Assessed loss used                                         | 1,132,740,928       | 1,147,178,657       |
| Assessed loss raised                                       | (1,170,245,015)     | (1,132,740,927)     |
|                                                            | <b>(79,726,994)</b> | <b>(22,361,088)</b> |
| <b>Reconciliation of the tax expense</b>                   |                     |                     |
| Reconciliation between accounting deficit and tax expense. |                     |                     |
| Accounting deficit                                         | (269,240,084)       | (36,089,382)        |
| Tax at the applicable tax rate of 28% (2021: 28%)          | (75,387,224)        | (12,437,218)        |
| <b>Tax effect of adjustments on taxable income</b>         |                     |                     |
| Non-taxable income                                         | (6,930,860)         | (12,253,073)        |
| Non-deductible expenses                                    | 2,591,090           | 2,329,203           |
|                                                            | <b>(79,726,994)</b> | <b>(22,361,088)</b> |

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### 73. Segment information

#### General information

##### Identification of segments

The municipality considers internal sources of information in identifying reportable segments. These include the IDP, SDBIP, Budget and monthly and quarterly reporting.

For management purposes, the municipality is organised and operates in nine key functional segments (or business units). To this end, management monitors the operating results of these segments for the purpose of making decisions about resource allocations and assessment of performance. Segments were aggregated for reporting purposes.

Revenue and expenditure relate to segments are allocated at a transactional level.

##### Aggregated segments

The municipality operates throughout the Free State Province. Segments were aggregated on the basis of services delivered as management considered that the economic characteristics of the segments throughout the Free State were sufficiently similar to warrant aggregation.

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

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

##### Corporate Services

Provision of effective strategic leadership and management to departments, ensures and oversee that all directorates are provided with adequate support in line with the mandate, vision and mission of the municipality. It consists but not limited to human resources, performance management, government communication and Information management & technology and legal services.

##### Finance

Finance department is charged with the responsibility of budget and treasury. It is also responsible for the financial wellness of the city including generating revenue and billing, maintaining financial records, financial reporting and encourages responsible spending in terms of relevant legislations.

##### Human Settlement & Housing

The directorate is charged with the responsibility of developing and providing housing and dwellings for the residents of the city.

##### Office of the City Manager

Office of the accounting officer where all the department heads report to. It ensures that structures and governance processes are in place and aligned to achieve the strategic objectives of the municipality in line with the relevant legislations.

##### Office of the Executive Mayor

Office of the Executive Mayor is a political head of the municipality appointed in terms of the Electoral Act. It ensures effective management of the city addressing agreed political priorities. It also ensures that citizens are given sufficient information, opportunity and encouragement to participate in and influence the affairs of the municipality.

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### 73. Segment information (continued)

#### Waste and Fleet management

Waste department manages and implements the collection of solid waste and cleaning of the city. Fleet management ensures that the municipality has sufficient and appropriate fleet to ensure service delivery. These fleet are also managed and maintained through the department.

#### Engineering and Water Services

The department is charged with developing and maintaining strategic infrastructure that mainly provides service delivery (e.g. water, sewer, refuse, etc.). The supply of water is also provided through the department.

#### Social and Public Safety

The department is charged with the responsibility of improving the well-being of every individual in society so they can reach their full potential. Social development means investing in people (e.g. maintaining of parks, Zoo and museums, interactions, wellness and health).

Public Safety is charged with the responsibility of keeping order in the city and ensuring compliance with relevant legislation (e.g. Criminal Procedures act). Public Safety includes traffic department and law enforcement. Social and Public Safety includes the Mangaung Metro Unit.

#### Planning, Economic and Rural Development

Planning department involves town planning and development for the City structurally. Building plans and town planning are processed through the department. While rural development strives to upgrade the well-being, living environment of rural areas surrounding the metro, the department intends to bridge the living gap between the City dwellers and those at the rural areas.

#### Centlec (SOC) Ltd

The principal activity of the municipal entity is the distribution of electricity to industries, businesses and households mainly in the Mangaung and Southern Free state area.

# Mangaung Metropolitan Municipality

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### 73. Segment information (continued)

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

2022

|                                          | Corporate Services | Finance              | Human Settlement & Housing | Office of the City Manager | Office of the Executive Mayor | Waste and Fleet management | Engineering & Water Services | Social & Public Safety | Centlec SOC (Ltd)    | Planning, Economic and Rural Development | Total                |
|------------------------------------------|--------------------|----------------------|----------------------------|----------------------------|-------------------------------|----------------------------|------------------------------|------------------------|----------------------|------------------------------------------|----------------------|
| <b>Revenue</b>                           |                    |                      |                            |                            |                               |                            |                              |                        |                      |                                          |                      |
| Revenue from exchange transactions       | 926,849            | 32,060,966           | 44,923,517                 | 70                         | -                             | 172,531,429                | 1,703,454,693                | 10,267,753             | 2,774,821,107        | 44,937,970                               | 4,783,924,354        |
| Revenue from non-exchange transactions   | -                  | 2,910,110,064        | -                          | -                          | -                             | 282,422,485                | 353,718,950                  | 3,850,324              | 8,036,232            | 2,900,907                                | 3,561,038,962        |
| <b>Total segment revenue</b>             | <b>926,849</b>     | <b>2,942,171,030</b> | <b>44,923,517</b>          | <b>70</b>                  | <b>-</b>                      | <b>454,953,914</b>         | <b>2,057,173,643</b>         | <b>14,118,077</b>      | <b>2,782,857,339</b> | <b>47,838,877</b>                        | <b>8,344,963,316</b> |
| <b>Entity's revenue</b>                  |                    |                      |                            |                            |                               |                            |                              |                        |                      |                                          | <b>8,344,963,316</b> |
| <b>Expenditure</b>                       |                    |                      |                            |                            |                               |                            |                              |                        |                      |                                          |                      |
| Bulk purchases                           | -                  | -                    | -                          | -                          | -                             | -                          | 835,315,570                  | -                      | 2,061,862,827        | -                                        | 2,897,178,397        |
| Contracted services                      | 42,517,667         | 131,504,526          | 31,631,493                 | 24,909,804                 | 2,220,342                     | 34,779,189                 | 220,697,628                  | 2,809,942              | 107,621,995          | 17,772,619                               | 616,465,205          |
| Debt impairment & bad debt written off   | -                  | 21,979,321           | 283,931,495                | -                          | -                             | 1,383,762,380              | 89,430,556                   | 1,067,988              | 77,201,367           | 137,801                                  | 1,857,510,908        |
| Depreciation and amortisation            | 45,646,284         | 8,322,495            | -                          | -                          | -                             | 74,102,033                 | 490,734,568                  | 52,102,797             | 233,439,517          | 2,308,898                                | 906,656,592          |
| Employee related cost                    | 208,805,347        | 374,197,063          | 89,905,122                 | 105,474,855                | 120,156,656                   | 254,445,743                | 327,636,911                  | 247,382,079            | 420,922,652          | 80,896,708                               | 2,229,823,136        |
| Remuneration of councillors              | -                  | -                    | -                          | -                          | 67,894,941                    | -                          | -                            | -                      | -                    | -                                        | 67,894,941           |
| Finance cost                             | 56,060,000         | 27,753,702           | 72,036,168                 | -                          | -                             | 1,774,713                  | 58,694,442                   | -                      | 12,880,013           | 16,110,563                               | 245,309,601          |
| General expenses                         | 26,467,847         | 130,613,738          | 9,838,058                  | 1,792,132                  | 21,133,960                    | 69,809,757                 | (10,385,107)                 | 15,074,371             | 111,192,416          | 2,722,348                                | 378,259,520          |
| Gains and losses                         | (179,415,865)      | 5,672,676            | (14,694,028)               | -                          | -                             | 21,457,414                 | 31,019,331                   | 105,542                | 6,124,728            | 228,010,536                              | 98,280,334           |
| Tax                                      | -                  | -                    | -                          | -                          | -                             | -                          | -                            | -                      | (79,726,995)         | -                                        | (79,726,995)         |
| <b>Total segment expenditure</b>         | <b>200,081,280</b> | <b>700,043,521</b>   | <b>472,648,308</b>         | <b>132,176,791</b>         | <b>211,405,899</b>            | <b>1,840,131,229</b>       | <b>2,043,143,899</b>         | <b>318,542,719</b>     | <b>2,951,518,520</b> | <b>347,959,473</b>                       | <b>9,217,651,639</b> |
| <b>Total segmental surplus/(deficit)</b> |                    |                      |                            |                            |                               |                            |                              |                        |                      |                                          | <b>(872,688,323)</b> |
| <b>Assets</b>                            |                    |                      |                            |                            |                               |                            |                              |                        |                      |                                          |                      |
| <b>Current Assets</b>                    |                    |                      |                            |                            |                               |                            |                              |                        |                      |                                          |                      |
| Inventories                              | -                  | 542,926,557          | -                          | -                          | -                             | 1,299,734                  | 4,507,279                    | -                      | 125,051,279          | -                                        | 673,784,849          |

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|                                                            | Corporate Services | Finance              | Human Settlement & Housing | Office of the City Manager | Office of the Executive Mayor | Waste and Fleet management | Engineering & Water Services | Social & Public Safety | Centlec SOC (Ltd)    | Planning, Economic and Rural Development | Total                 |
|------------------------------------------------------------|--------------------|----------------------|----------------------------|----------------------------|-------------------------------|----------------------------|------------------------------|------------------------|----------------------|------------------------------------------|-----------------------|
| <b>73. Segment information (continued)</b>                 |                    |                      |                            |                            |                               |                            |                              |                        |                      |                                          |                       |
| Consumer receivables from non-exchange transactions        | -                  | 338,888,441          | -                          | -                          | -                             | -                          | -                            | -                      | -                    | -                                        | 338,888,441           |
| Consumer receivables from exchange transactions            | -                  | 199,784,834          | 3,550,403                  | -                          | -                             | 63,856,733                 | 604,099,960                  | -                      | 509,308,358          | -                                        | 1,380,600,288         |
| Other receivables from non-exchange transactions           | -                  | -                    | -                          | -                          | -                             | -                          | -                            | 764,212                | -                    | -                                        | 764,212               |
| Other receivables from exchange transactions               | 71,434             | 69,167,768           | 946,904                    | -                          | -                             | -                          | -                            | -                      | 148,957,273          | 4,173,036                                | 223,316,415           |
| Non-current receivables                                    | -                  | -                    | -                          | -                          | -                             | -                          | -                            | -                      | 273,713              | -                                        | 273,713               |
| Cash and cash equivalents                                  | -                  | 728,277,531          | -                          | -                          | -                             | -                          | -                            | -                      | 12,255,939           | -                                        | 740,533,470           |
| <b>Non-Current Assets</b>                                  |                    |                      |                            |                            |                               |                            |                              |                        |                      |                                          |                       |
| Investment property                                        | -                  | -                    | 585,611,015                | -                          | -                             | -                          | -                            | -                      | -                    | -                                        | 1,585,611,015         |
| Property plant and equipment                               | 376,824,673        | 29,588,514           | -                          | -                          | -                             | 449,275,928                | 7,734,045,814                | 743,255,402            | 6,235,018,998        | 1,331,658,164                            | 17,899,667,493        |
| Intangible assets                                          | 11,638,741         | -                    | -                          | -                          | -                             | -                          | -                            | -                      | 95,603,203           | 27,505,707                               | 134,747,651           |
| Heritage assets                                            | 240,178,000        | -                    | -                          | -                          | -                             | -                          | -                            | 4,488,687              | -                    | -                                        | 244,666,687           |
| Deferred tax asset                                         | -                  | -                    | -                          | -                          | -                             | -                          | -                            | -                      | 1,342,777,625        | -                                        | 1,342,777,625         |
| Non-current receivables                                    | (135,192)          | 124,259              | 163,889                    | -                          | -                             | -                          | -                            | -                      | 299,757              | -                                        | 452,713               |
| Living resources                                           | -                  | -                    | -                          | -                          | -                             | -                          | -                            | 3,675,800              | -                    | -                                        | 3,675,800             |
| <b>Total segment assets</b>                                | <b>628,577,656</b> | <b>1,908,757,904</b> | <b>590,272,211</b>         | <b>-</b>                   | <b>-</b>                      | <b>514,432,395</b>         | <b>8,342,653,053</b>         | <b>752,184,101</b>     | <b>8,469,546,145</b> | <b>1,363,336,907</b>                     | <b>24,569,760,372</b> |
| <b>Total assets as per Statement of financial Position</b> |                    |                      |                            |                            |                               |                            |                              |                        |                      |                                          | <b>24,569,760,372</b> |
| <b>Liabilities</b>                                         |                    |                      |                            |                            |                               |                            |                              |                        |                      |                                          |                       |
| <b>Current Liabilities</b>                                 |                    |                      |                            |                            |                               |                            |                              |                        |                      |                                          |                       |
| Payables from exchange transactions                        | 364,294,069        | 1,387,186,036        | 231,550                    | -                          | -                             | (143)                      | (36,519,239)                 | -                      | 670,805,221          | 5,871,172                                | 2,391,868,666         |
| Payables from non-exchange transactions                    | -                  | 307,229,019          | 583,528                    | -                          | -                             | -                          | -                            | (57,304)               | -                    | -                                        | 307,755,243           |
| Consumer deposits                                          | -                  | -                    | -                          | -                          | -                             | -                          | 33,839,791                   | -                      | 130,373,809          | -                                        | 164,213,600           |
| Unspent conditional grants and receipts                    | 5,299,588          | 565,739,456          | -                          | -                          | -                             | -                          | -                            | -                      | -                    | -                                        | 571,039,044           |
| Finance lease obligation                                   | -                  | 12,096,615           | -                          | -                          | -                             | -                          | -                            | -                      | 1,988,246            | -                                        | 14,084,861            |
| Borrowings                                                 | -                  | 198,773,523          | -                          | -                          | -                             | -                          | -                            | -                      | -                    | -                                        | 198,773,523           |

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|                                                                         | Corporate<br>Services | Finance              | Human<br>Settlement & City Manager<br>Housing | Office of the<br>Executive<br>Mayor | Office of the<br>Executive<br>Mayor | Waste and Fleet<br>management | Engineering &<br>Water Services | Social & Public<br>Safety | Centlec SOC<br>(Ltd) | Planning,<br>Economic and<br>Rural<br>Development | Total                |
|-------------------------------------------------------------------------|-----------------------|----------------------|-----------------------------------------------|-------------------------------------|-------------------------------------|-------------------------------|---------------------------------|---------------------------|----------------------|---------------------------------------------------|----------------------|
| <b>73. Segment information (continued)</b>                              |                       |                      |                                               |                                     |                                     |                               |                                 |                           |                      |                                                   |                      |
| Provisions                                                              | -                     | 98,748,234           | -                                             | -                                   | -                                   | -                             | -                               | -                         | -                    | -                                                 | 98,748,234           |
| VAT payable                                                             | -                     | (143,679,617)        | -                                             | -                                   | -                                   | -                             | -                               | -                         | 206,305,913          | -                                                 | 62,626,296           |
| Employee benefit obligation                                             | 32,007,000            | -                    | -                                             | -                                   | -                                   | -                             | -                               | -                         | 2,489,000            | -                                                 | 34,496,000           |
| <b>Non-Current Liabilities</b>                                          |                       |                      |                                               |                                     |                                     |                               |                                 |                           |                      |                                                   |                      |
| Finance lease obligation                                                | -                     | -                    | -                                             | -                                   | -                                   | -                             | -                               | -                         | 1,511,179            | -                                                 | 1,511,179            |
| Borrowings                                                              | -                     | -                    | -                                             | -                                   | -                                   | -                             | 382,087,800                     | -                         | -                    | 88,033,525                                        | 470,121,325          |
| Provisions                                                              | -                     | 628,688,755          | -                                             | -                                   | -                                   | -                             | -                               | -                         | -                    | -                                                 | 628,688,755          |
| Employee benefit obligation                                             | 553,826,000           | -                    | -                                             | -                                   | -                                   | -                             | -                               | -                         | 25,187,001           | -                                                 | 579,013,001          |
| FRESHCO liability                                                       | -                     | 149,520,237          | -                                             | -                                   | -                                   | -                             | -                               | -                         | -                    | -                                                 | 149,520,237          |
| Deferred tax liability                                                  | -                     | -                    | -                                             | -                                   | -                                   | -                             | -                               | -                         | 1,358,071,535        | -                                                 | 1,358,071,535        |
| Land availability liability                                             | -                     | 267,561,408          | -                                             | -                                   | -                                   | -                             | -                               | -                         | -                    | -                                                 | 267,561,408          |
| <b>Total segment liabilities</b>                                        | <b>955,426,657</b>    | <b>3,471,863,666</b> | <b>815,078</b>                                | <b>-</b>                            | <b>-</b>                            | <b>(143)</b>                  | <b>379,408,352</b>              | <b>(57,304)</b>           | <b>2,396,731,904</b> | <b>93,904,697</b>                                 | <b>7,298,092,907</b> |
| <b>Total liabilities as per<br/>Statement of financial<br/>Position</b> |                       |                      |                                               |                                     |                                     |                               |                                 |                           |                      |                                                   | <b>7,298,092,907</b> |

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### 73. Segment information (continued)

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|                                                 | Corporate<br>Services | Finance              | Human<br>Settlement & City<br>Housing | Office of the<br>City Manager | Office of the<br>Executive<br>Mayor | Waste and<br>Fleet<br>management | Engineering<br>& Water<br>Services | Social & Public<br>Safety | Centlec SOC<br>(Ltd) | Planning,<br>Economic and<br>Rural<br>Development | Total                |
|-------------------------------------------------|-----------------------|----------------------|---------------------------------------|-------------------------------|-------------------------------------|----------------------------------|------------------------------------|---------------------------|----------------------|---------------------------------------------------|----------------------|
| <b>Revenue</b>                                  |                       |                      |                                       |                               |                                     |                                  |                                    |                           |                      |                                                   |                      |
| Revenue from non-exchange transactions          | -                     | 2,573,843,725        | -                                     | -                             | -                                   | 252,463,347                      | 446,123,022                        | 9,387,712                 | 10,318,565           | 2,044                                             | 3,292,138,415        |
| Revenue from exchange transactions              | 1,563,653             | 24,241,372           | 45,357,688                            | 70                            | -                                   | 155,968,708                      | 1,512,922,363                      | 9,891,467                 | 2,593,517,142        | 42,334,234                                        | 4,385,796,697        |
| <b>Total segment revenue</b>                    | <b>1,563,653</b>      | <b>2,598,085,097</b> | <b>45,357,688</b>                     | <b>70</b>                     | <b>-</b>                            | <b>408,432,055</b>               | <b>1,959,045,385</b>               | <b>19,279,179</b>         | <b>2,603,835,707</b> | <b>42,336,278</b>                                 | <b>7,677,935,112</b> |
| <b>Entity's revenue</b>                         |                       |                      |                                       |                               |                                     |                                  |                                    |                           |                      |                                                   | <b>7,677,935,112</b> |
| <b>Expenditure</b>                              |                       |                      |                                       |                               |                                     |                                  |                                    |                           |                      |                                                   |                      |
| Bulk purchases                                  | -                     | -                    | -                                     | -                             | -                                   | -                                | 743,539,271                        | -                         | 1,780,067,168        | -                                                 | 2,523,606,439        |
| Contracted services                             | 53,385,025            | 55,043,501           | 18,924,599                            | 56,613,732                    | 1,135,419                           | 19,667,534                       | 181,141,605                        | 95,514,415                | 89,243,458           | 9,061,247                                         | 579,730,535          |
| Debt impairment & bad debt written off          | -                     | 161,774,420          | 9,512,878                             | -                             | -                                   | 82,787,497                       | 544,739,421                        | 5,887,388                 | 18,759,156           | 150,828                                           | 823,611,588          |
| Depreciation and amortisation                   | 47,131,562            | 9,125,419            | -                                     | -                             | -                                   | 76,946,201                       | 526,896,451                        | 55,796,996                | 227,780,859          | 2,495,725                                         | 946,173,213          |
| Employee related cost                           | 194,905,355           | 303,724,375          | 90,649,000                            | 43,995,611                    | 138,524,129                         | 249,969,105                      | 298,842,181                        | 387,392,962               | 394,160,804          | 82,805,512                                        | 2,184,969,034        |
| Remuneration of councillors                     | -                     | -                    | -                                     | -                             | 65,531,322                          | -                                | -                                  | -                         | -                    | -                                                 | 65,531,322           |
| Finance cost                                    | 47,790,990            | 2,782,029            | 32,419,764                            | -                             | -                                   | 13,457,486                       | 56,613,722                         | -                         | 14,551,963           | 31,093,963                                        | 198,709,917          |
| General expenses                                | 42,249,823            | 110,109,779          | 19,045,649                            | 6,423,633                     | 22,026,532                          | 43,846,343                       | (24,608,083)                       | 20,137,195                | 76,581,684           | 2,602,248                                         | 318,414,803          |
| Grants and subsidies paid                       | -                     | 1,989                | -                                     | -                             | -                                   | -                                | -                                  | -                         | -                    | -                                                 | 1,989                |
| Gains and losses                                | 38,636,246            | 4,839,286            | 321,453                               | -                             | -                                   | -                                | 30,051,532                         | 3,677,711                 | 5,613,382            | (3,361,877)                                       | 79,777,733           |
| Tax                                             | -                     | -                    | -                                     | -                             | -                                   | -                                | -                                  | -                         | (22,361,088)         | -                                                 | (22,361,088)         |
| <b>Total segment expenditure</b>                | <b>424,099,001</b>    | <b>647,400,798</b>   | <b>170,873,343</b>                    | <b>107,032,976</b>            | <b>227,217,402</b>                  | <b>486,674,166</b>               | <b>2,357,216,100</b>               | <b>568,406,667</b>        | <b>2,584,397,386</b> | <b>124,847,646</b>                                | <b>7,698,165,485</b> |
| <b>Total segmental surplus/(deficit)</b>        |                       |                      |                                       |                               |                                     |                                  |                                    |                           |                      |                                                   | <b>(20,230,373)</b>  |
| <b>Assets</b>                                   |                       |                      |                                       |                               |                                     |                                  |                                    |                           |                      |                                                   |                      |
| <b>Current Assets</b>                           |                       |                      |                                       |                               |                                     |                                  |                                    |                           |                      |                                                   |                      |
| Cash and cash equivalents                       | -                     | 195,678,895          | -                                     | -                             | -                                   | -                                | -                                  | -                         | 15,821,036           | -                                                 | 211,499,931          |
| Non-current receivables                         | -                     | -                    | -                                     | -                             | -                                   | -                                | -                                  | -                         | 275,470              | -                                                 | 275,470              |
| Consumer receivables from exchange transactions | -                     | 199,784,834          | 4,161,783                             | -                             | -                                   | 62,346,389                       | 845,367,303                        | -                         | 549,391,486          | -                                                 | 1,661,051,795        |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

Figures in Rand

|                                                            | Corporate<br>Services | Finance              | Human<br>Settlement & City Manager<br>Housing | Office of the<br>Executive<br>Mayor | Waste and Fleet<br>management | Engineering &<br>Water Services | Social & Public<br>Safety | Centlec SOC<br>(Ltd) | Planning,<br>Economic and<br>Rural<br>Development | Total                 |
|------------------------------------------------------------|-----------------------|----------------------|-----------------------------------------------|-------------------------------------|-------------------------------|---------------------------------|---------------------------|----------------------|---------------------------------------------------|-----------------------|
| <b>73. Segment information (continued)</b>                 |                       |                      |                                               |                                     |                               |                                 |                           |                      |                                                   |                       |
| Consumer receivables from non-exchange transactions        | -                     | 766,473,520          | -                                             | -                                   | -                             | -                               | -                         | -                    | -                                                 | 766,473,520           |
| Inventory                                                  | -                     | 528,082,340          | -                                             | -                                   | -                             | 1,381,083                       | 4,003,694                 | -                    | 96,586,572                                        | 630,053,689           |
| Other receivables from exchange transactions               | 61,669                | 70,962,986           | 350,702                                       | -                                   | -                             | -                               | -                         | 113,343,267          | 3,967,054                                         | 188,685,678           |
| Other receivables from non-exchange transactions           | -                     | -                    | -                                             | -                                   | -                             | -                               | 950,267                   | -                    | -                                                 | 950,267               |
| <b>Non-Current Assets</b>                                  |                       |                      |                                               |                                     |                               |                                 |                           |                      |                                                   |                       |
| Heritage assets                                            | 275,480,000           | -                    | -                                             | -                                   | -                             | -                               | 4,488,687                 | -                    | -                                                 | 279,968,687           |
| Deferred tax asset                                         | -                     | -                    | -                                             | -                                   | -                             | -                               | -                         | 1,288,903,893        | -                                                 | 1,288,903,893         |
| Intangible assets                                          | 9,503,458             | -                    | -                                             | -                                   | -                             | -                               | -                         | 95,231,127           | 305,707                                           | 105,040,292           |
| Living resources                                           | -                     | -                    | -                                             | -                                   | -                             | -                               | 2,791,000                 | -                    | -                                                 | 2,791,000             |
| Investment property                                        | -                     | -                    | 570,916,987                                   | -                                   | -                             | -                               | -                         | -                    | -                                                 | 1,570,916,987         |
| Non-current receivables                                    | (67,596)              | 112,049              | 85,091                                        | -                                   | -                             | -                               | -                         | 573,470              | -                                                 | 703,014               |
| Property, plant and equipment                              | 167,947,884           | 24,822,577           | -                                             | -                                   | -                             | 565,383,011                     | 7,740,779,719             | 772,462,098          | 6,324,672,318                                     | 18,195,215,303        |
| <b>Total segment assets</b>                                | <b>,452,925,415</b>   | <b>1,785,917,201</b> | <b>,575,514,563</b>                           | <b>-</b>                            | <b>-</b>                      | <b>629,110,483</b>              | <b>8,590,150,716</b>      | <b>780,692,052</b>   | <b>8,484,798,639</b>                              | <b>24,902,529,526</b> |
| <b>Total assets as per Statement of financial Position</b> |                       |                      |                                               |                                     |                               |                                 |                           |                      |                                                   | <b>24,902,529,526</b> |
| <b>Liabilities</b>                                         |                       |                      |                                               |                                     |                               |                                 |                           |                      |                                                   |                       |
| Borrowings                                                 | -                     | -                    | -                                             | -                                   | -                             | 491,727,882                     | -                         | -                    | 125,243,787                                       | 616,971,669           |
| Borrowings - Current portion                               | -                     | 159,459,305          | -                                             | -                                   | -                             | -                               | -                         | -                    | -                                                 | 159,459,305           |
| Consumer deposits                                          | -                     | -                    | -                                             | -                                   | -                             | 33,351,036                      | -                         | 127,042,880          | -                                                 | 160,393,916           |
| Employee benefit obligation                                | 547,617,000           | -                    | -                                             | -                                   | -                             | -                               | -                         | 23,818,001           | -                                                 | 571,435,001           |
| Employee benefit obligation - current                      | 35,379,000            | -                    | -                                             | -                                   | -                             | -                               | -                         | 1,831,000            | -                                                 | 37,210,000            |
| VAT payable                                                | -                     | (69,794,592)         | -                                             | -                                   | -                             | -                               | -                         | 161,368,748          | -                                                 | 91,574,156            |
| Finance lease obligation                                   | -                     | 38,221,652           | -                                             | -                                   | -                             | -                               | -                         | 3,499,425            | -                                                 | 41,721,077            |
| Finance lease obligation - current portion                 | -                     | 11,831,215           | -                                             | -                                   | -                             | -                               | -                         | 1,813,226            | -                                                 | 13,644,441            |
| Freshco liability                                          | -                     | 163,648,133          | -                                             | -                                   | -                             | -                               | -                         | -                    | -                                                 | 163,648,133           |
| Land availability liability                                | -                     | 282,670,558          | -                                             | -                                   | -                             | -                               | -                         | -                    | -                                                 | 282,670,558           |

# Mangaung Metropolitan Municipality

Consolidated Annual Financial Statements for the year ended 30 June 2022

## Notes to the Consolidated Annual Financial Statements

Figures in Rand

|                                                                 | Corporate Services | Finance              | Human Settlement & Housing | Office of the City Manager | Office of the Executive Mayor | Waste and Fleet management | Engineering & Water Services | Social & Public Safety | Centlec SOC (Ltd)    | Planning, Economic and Rural Development | Total                |
|-----------------------------------------------------------------|--------------------|----------------------|----------------------------|----------------------------|-------------------------------|----------------------------|------------------------------|------------------------|----------------------|------------------------------------------|----------------------|
| <b>73. Segment information (continued)</b>                      |                    |                      |                            |                            |                               |                            |                              |                        |                      |                                          |                      |
| Payables from exchange transactions                             | 382,788,057        | 1,262,409,683        | 213,729                    | -                          | 13,167                        | 126,327                    | 84,003                       | 46,901                 | 523,027,308          | 6,820,165                                | 2,175,529,340        |
| Payables from non-exchange transactions                         | -                  | 336,074,974          | 549,157                    | -                          | -                             | -                          | -                            | -                      | -                    | -                                        | 336,624,131          |
| Unspent conditional grants and receipts                         | 2,228,830          | 33,433,879           | -                          | -                          | -                             | -                          | -                            | -                      | -                    | -                                        | 35,662,709           |
| Deferred tax liability                                          | -                  | -                    | -                          | -                          | -                             | -                          | -                            | -                      | 1,383,924,798        | -                                        | 1,383,924,798        |
| Provisions                                                      | -                  | 616,660,269          | -                          | -                          | -                             | -                          | -                            | -                      | -                    | -                                        | 616,660,269          |
| Provisions - current portion                                    | -                  | 64,716,945           | -                          | -                          | -                             | -                          | -                            | -                      | -                    | -                                        | 64,716,945           |
| <b>Total segment liabilities</b>                                | <b>968,012,887</b> | <b>2,899,332,021</b> | <b>762,886</b>             | <b>-</b>                   | <b>13,167</b>                 | <b>126,327</b>             | <b>525,162,921</b>           | <b>46,901</b>          | <b>2,226,325,386</b> | <b>132,063,952</b>                       | <b>6,751,846,448</b> |
| <b>Total liabilities as per Statement of financial Position</b> |                    |                      |                            |                            |                               |                            |                              |                        |                      |                                          | <b>6,751,846,448</b> |

### Information about geographical areas

The municipality's operations are in the Free State Province (Mangaung district).

The municipality does not report on a geographical basis; therefore decision making is not based on geographical areas.

**Mangaung Metropolitan Municipality**
**Appendix A to the Consolidated Annual Financial Statements for the year ended 30 June 2022**
**Councillors' arrear consumer accounts (over 90 days) - Audited**

| <b>Details</b>  | <b>July 21</b> | <b>August 21</b> | <b>September 21</b> | <b>October 21</b> | <b>November 21</b> | <b>December 21</b> | <b>January 22</b> | <b>February 22</b> | <b>March 22</b> | <b>April 22</b> | <b>May 22</b>  | <b>June 22</b> |
|-----------------|----------------|------------------|---------------------|-------------------|--------------------|--------------------|-------------------|--------------------|-----------------|-----------------|----------------|----------------|
| Chaka NS        | 58,696         | 59,474           | 60,253              | 61,063            | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Denner JH       | -              | -                | -                   | -                 | 2,163              | 2,163              | 2,163             | 2,174              | 2,185           | 2,196           | 2,208          | 2,220          |
| Dyosiba S       | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Ferreira TI     | -              | -                | 247                 | 508               | 770                | -                  | -                 | -                  | -               | 261             | -              | -              |
| Mabale G        | 20,297         | 76,103           | 78,054              | 74,276            | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Mabena MJ       | -              | -                | -                   | -                 | 723                | 726                | 728               | 731                | 734             | 736             | -              | -              |
| Mahase MM       | 620            | 906              | 1,194               | 1,500             | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Makau PE        | -              | -                | -                   | -                 | 29,258             | 32,500             | 51,312            | 70,116             | 78,637          | -               | -              | 13,444         |
| Mangcotywa ZE   | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Matetha NR      | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Matsoetlane MJ  | -              | -                | -                   | -                 | 83,313             | 84,039             | 85,022            | 85,752             | 86,824          | 56,963          | 3,490          | -              |
| Mlamleli SM     | -              | 572              | 3,436               | 3,416             | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Mogapi KT       | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Mohibidu PM     | 20,759         | 21,686           | 22,618              | 23,602            | 24,591             | 25,585             | 26,585            | 27,590             | 28,605          | 29,626          | 30,658         | 31,695         |
| Mokoakoa MI     | 5,527          | 5,832            | 6,138               | 6,462             | 6,787              | 7,113              | 7,441             | 7,771              | 8,105           | 8,439           | 8,778          | 9,117          |
| Mokoena JI      | -              | -                | -                   | -                 | 41,441             | 42,518             | 40,527            | 40,527             | 43,581          | 40,659          | 41,530         | 43,977         |
| Moleko ML       | 713            | 716              | 718                 | 721               | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Mononyane MB    | 10,188         | 11,211           | 12,241              | 13,384            | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Moopela TM      | 25,349         | 25,441           | 25,534              | 25,626            | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Motloung MV     | 1,432          | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Naile TJ        | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Ndzuzo T        | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Nkoe MJ         | 66,065         | 67,647           | 68,908              | 70,468            | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Nothnagel J     | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Nyaphudi LJ     | -              | -                | -                   | -                 | 123,474            | 125,469            | 127,412           | 129,143            | 131,301         | 132,223         | 134,417        | 136,635        |
| Petersen JE     | 132            | 132              | 132                 | 132               | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Phalatse OP     | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Pongolo DX      | 6,667          | 7,100            | 7,535               | 7,994             | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Pretorius S     | -              | -                | -                   | -                 | 1,856              | -                  | -                 | -                  | -               | -               | -              | -              |
| Qwema MB        | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Ramolelle MS    | -              | -                | -                   | -                 | 724                | 726                | 729               | 731                | 734             | 737             | -              | -              |
| Ranchobe T      | 21,924         | 31,354           | 21,859              | 27,671            | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Rasoeu LER      | 584            | 584              | 584                 | 584               | 584                | 584                | 584               | 584                | 584             | 584             | 584            | 584            |
| Sebolao JE      | 28,182         | 28,837           | 29,530              | 30,120            | 30,728             | 31,340             | 31,974            | 32,743             | 63,537          | 33,949          | 31,120         | 28,348         |
| Sefuthi NM      | 11,873         | 12,140           | 12,408              | 12,688            | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Shounyana MM    | 3,755          | 3,643            | 3,547               | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Snyman E        | 454            | 454              | 454                 | 454               | 454                | 454                | 454               | 454                | 454             | 454             | 14             | 14             |
| Thatho MV       | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Thipenyane G    | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Thomas JB       | -              | -                | -                   | -                 | 3,367              | 3,382              | 3,397             | 3,411              | 3,427           | 3,442           | 3,458          | -              |
| Thwala ZJ       | 2,011          | 2,034            | 2,079               | 2,089             | 2,113              | 1,865              | 1,985             | 2,292              | 3,530           | 3,543           | 3,064          | 2,585          |
| Tsiane MMP      | 60,171         | 61,260           | 62,347              | 63,474            | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Van Der Walt TB | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | 37              | -               | -              | -              |
| <b>Total</b>    | <b>345,399</b> | <b>417,126</b>   | <b>419,816</b>      | <b>426,232</b>    | <b>352,346</b>     | <b>358,464</b>     | <b>380,313</b>    | <b>404,019</b>     | <b>452,275</b>  | <b>313,812</b>  | <b>259,321</b> | <b>268,619</b> |

**Mangaung Metropolitan Municipality**
**Appendix A to the Consolidated Annual Financial Statement for the year ended 30 June 2021**
**Councillors' arrear consumer accounts (over 90 days) - Audited**

| <b>Details</b> | <b>July 20</b> | <b>August 20</b> | <b>September 20</b> | <b>October 20</b> | <b>November 20</b> | <b>December 20</b> | <b>January 21</b> | <b>February 21</b> | <b>March 21</b> | <b>April 21</b> | <b>May 21</b>  | <b>June 21</b> |
|----------------|----------------|------------------|---------------------|-------------------|--------------------|--------------------|-------------------|--------------------|-----------------|-----------------|----------------|----------------|
| Brits JF       | -              | -                | -                   | -                 | -                  | 1,425              | 2,850             | -                  | -               | -               | -              | -              |
| Chaka NS       | 49,224         | 50,263           | 50,721              | 51,208            | 51,698             | 52,444             | 53,328            | 54,211             | 54,211          | 55,992          | 56,887         | 57,794         |
| Dyosiba S      | -              | 287              | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Gailele IL     | -              | -                | -                   | 67                | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Goliath EK     | 11,249         | 8,234            | -                   | -                 | -                  | 1,805              | -                 | -                  | -               | -               | -              | -              |
| Kganakga M     | 155            | 858              | 220                 | 1,652             | 1,095              | 1,411              | -                 | -                  | -               | -               | -              | -              |
| Mabale G       | 53,456         | 61,383           | 50,713              | 51,066            | 45,975             | 41,242             | 50,028            | 53,297             | 47,797          | 53,754          | 31,297         | 25,797         |
| Mahase MM      | 1,505          | 1,635            | -                   | 67                | -                  | -                  | -                 | -                  | -               | -               | 122            | 335            |
| Mangcotywa ZE  | 4,106          | 3,677            | 2,024               | 2,461             | 1,647              | 1,211              | -                 | -                  | -               | -               | -              | -              |
| Mlamleli SM    | -              | -                | -                   | -                 | -                  | 25                 | 2,868             | 1,711              | -               | -               | 1,712          | 713            |
| Mogapi KT      | -              | -                | -                   | 4,690             | 3,008              | 1,008              | -                 | -                  | -               | -               | -              | -              |
| Mohibidu PM    | 18,480         | 18,440           | 11,901              | 12,712            | 13,524             | 15,814             | 16,835            | 16,199             | 16,199          | 18,007          | 18,919         | 19,836         |
| Mohlabane RJ   | 32,028         | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Mokoakoa MI    | 1,826          | 2,338            | 2,595               | 2,870             | 3,145              | 3,437              | 3,731             | 4,026              | 4,026           | 4,621           | 4,921          | 5,223          |
| Moleko ML      | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | 708            |
| Mononyane MB   | 31,809         | 34,523           | 31,379              | 32,841            | 29,809             | 28,966             | 25,456            | 20,956             | 16,456          | 13,357          | 9,987          | 9,478          |
| Morake AM      | 9,248          | 9,333            | 6,376               | 7,485             | 6,595              | 6,595              | 4,588             | 1,485              | -               | -               | -              | -              |
| Motloung MV    | 1,322          | 1,322            | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | 905            | 1,166          |
| Mvuyo A        | -              | -                | -                   | -                 | -                  | 318                | 688               | 1,104              | 1,104           | 1,877           | 2,134          | 2,526          |
| Nkoe MJ        | 39,045         | 40,577           | 41,694              | 42,385            | 43,193             | 44,206             | 44,216            | 58,884             | 58,884          | 62,732          | 63,791         | 64,896         |
| Ndzuzo T       | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | 8,660           | -              | -              |
| Nothnagel J    | 8,240          | 10,539           | 8,299               | 11,353            | 11,309             | 9,774              | 8,226             | 3,917              | 3,917           | 3,845           | 1,086          | -              |
| Petersen JE    | 132            | 132              | 132                 | 132               | 132                | 132                | 132               | 132                | 132             | 132             | 132            | 132            |
| Phalatse OP    | 3,069          | 2,351            | 915                 | 915               | 437                | -                  | -                 | -                  | -               | -               | -              | -              |
| Pongolo DX     | 1,392          | 2,132            | 2,501               | 2,897             | 3,293              | 3,707              | 4,123             | 4,541              | 4,541           | 5,384           | 5,810          | 6,237          |
| Pretorius S    | -              | 871              | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Qwema MB       | 2,612          | 2,217            | 760                 | 1,000             | 400                | 281                | -                 | -                  | -               | -               | -              | -              |
| Ranchobe T     | 31             | 31               | 913                 | 924               | 29,526             | 29,701             | 29,906            | 30,307             | 30,307          | 30,890          | 31,182         | 21,631         |
| Ratsiu NA      | 1,318          | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Sebolao JE     | 20,553         | 21,369           | 21,885              | 22,333            | 22,822             | 23,538             | 24,156            | 24,640             | 24,640          | 25,869          | 26,888         | 27,573         |
| Sefuthi NM     | 8,804          | 9,184            | 9,374               | 9,579             | 9,784              | 10,041             | 10,299            | 10,559             | 10,559          | 11,081          | 11,344         | 11,608         |
| Seleke PL      | 1,808          | 829              | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | -              |
| Shounyana MM   | 1,690          | 2,866            | 2,525               | 3,146             | 3,757              | 4,218              | 4,677             | 4,562              | 3,939           | 4,293           | 4,185          | 4,051          |
| Siyonzana MA   | 8,360          | 5,631            | 4,195               | 5,286             | 6,377              | 5,212              | 4,062             | 2,933              | 677             | 693             | -              | -              |
| Thatho MV      | 5,295          | 5,016            | 2,401               | 3,122             | 2,193              | 2,193              | 515               | -                  | -               | -               | -              | -              |
| Titi LM        | 4,665          | 7,228            | 8,510               | 9,872             | 11,234             | 12,657             | 9,851             | 7,054              | 2,817           | 1,460           | -              | -              |
| Tsiane MMP     | 61,082         | 60,568           | 59,311              | 60,101            | 60,891             | 61,983             | 63,080            | 64,172             | 61,172          | 63,369          | -              | -              |
| Thwala ZJ      | -              | -                | -                   | -                 | -                  | -                  | -                 | -                  | -               | -               | -              | 2,011          |
| <b>Total</b>   | <b>382,504</b> | <b>363,834</b>   | <b>319,344</b>      | <b>340,164</b>    | <b>361,844</b>     | <b>363,344</b>     | <b>363,615</b>    | <b>364,690</b>     | <b>341,378</b>  | <b>366,016</b>  | <b>271,302</b> | <b>261,715</b> |